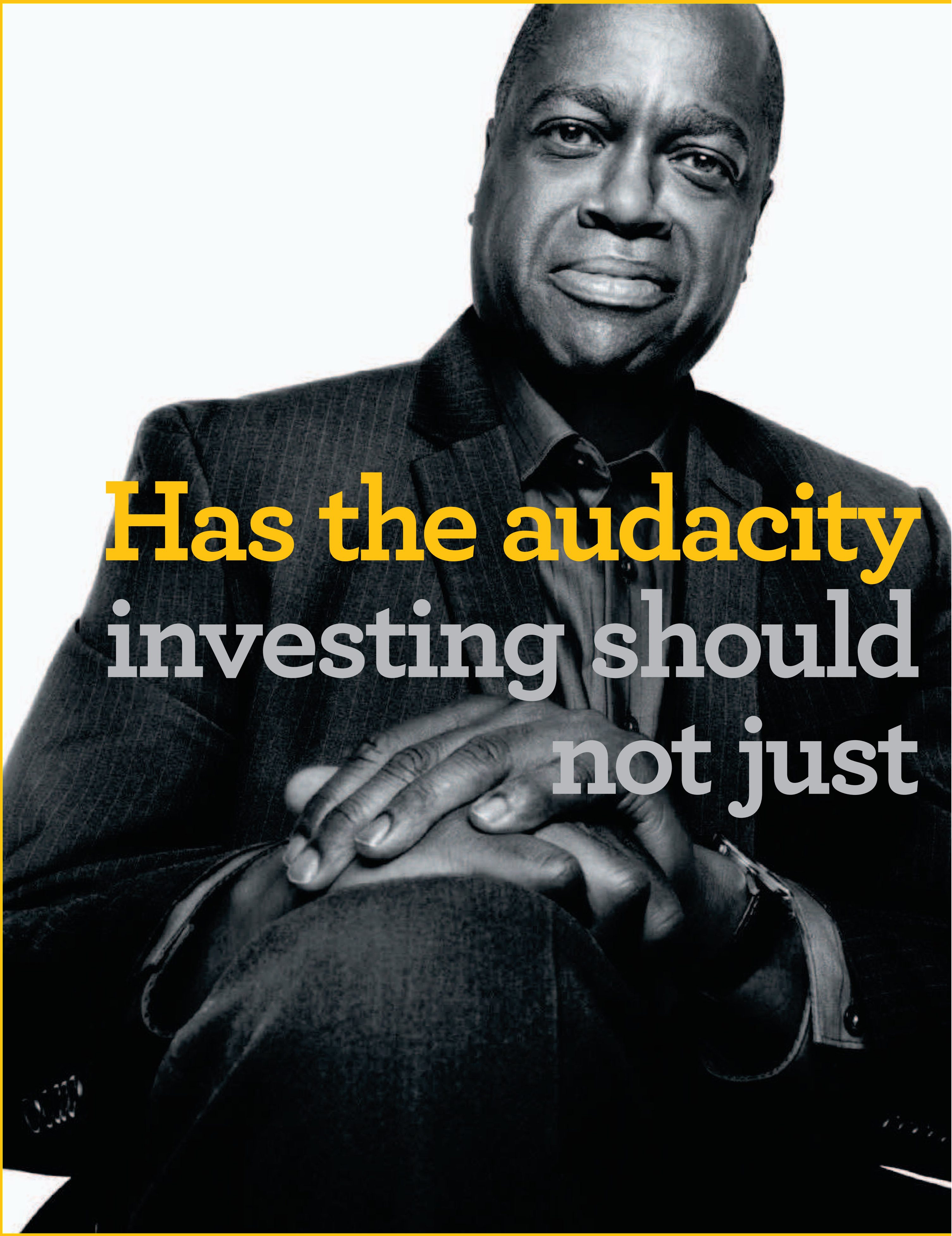
JANUARY 18, 2010 | BUSINESSWEEK.COM

# WHAT DODD'S DEPARTURE MEANS FOR FINANCIAL REGS

Bloomberg BusinessWeek

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# Bloomberg BusinessWeek In Depth




No segment of the workforce has escaped the temp revolution

(COVER) CHRIS BUCK, (STYLIST) LIZ ENGELHARDT, (GROOMING) SARA GLICK; (RIGHT) PAUL SAHRE

**32 | Permanent Temporary Workforce**

Twenty-six percent of America's workforce is classified as "nonstandard." That includes temps, contract workers, and part-timers. For employers, labor is evolving from a fixed cost to a flexible resource. For employees, it's a pretty raw deal, and it could last for years

**40 | Healing While Saving**

At Providence Regional Medical Center in Everett, Wash., they don't wheel patients from treatment to treatment—they bring the equipment to the sickbed in a "single-stay" ward. It's one of many innovative, cost-efficient changes that have made Providence a rarity: a U.S. hospital that offers high quality as it cuts costs

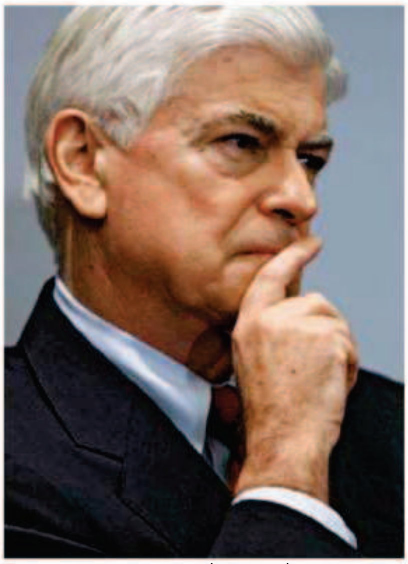
**46 | Endless Oil**

"Peak oil" theorists insist that worldwide oil production is in irreversible decline. But innovative drilling techniques, shifting politics, and lower demand may combine to produce enough crude to last a century and beyond



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# BusinessWeek The Global Report



Senator Chris Dodd (D-Conn.)

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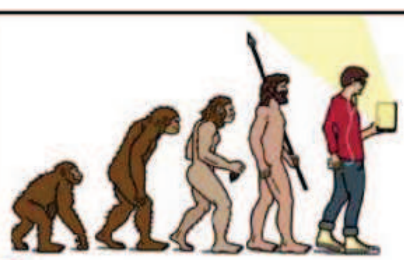
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Brand-minded filmmaker Brett Ratner



An 'iPad' could be a big advance

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(TOP TO BOTTOM) PABLO MARTINEZ MONSIVAIS/AP PHOTO; ALAN LEVENSON; JENNIFER DANIEL



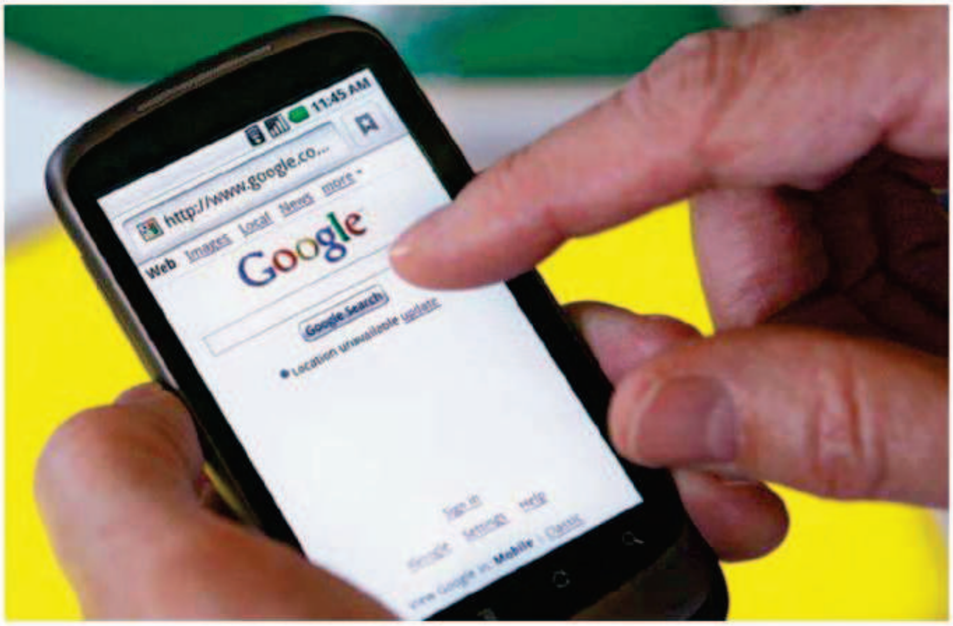
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Edited by
Harry Maurer and
Cristina Lindblad

# THE WEEK IN BUSINESS




## TECHNOLOGY

### GOOGLE COMES CALLING

The long-simmering rivalry between **Apple** and Google is suddenly boiling over. For years, Silicon Valley's two most successful companies constituted something of a mutual admiration society. Apple employs Google search as the default on the **iPhone,** while **Google Maps** and Google's **YouTube** are among the most popular apps**.** But on Jan. 5, Google unveiled the **Nexus One** cell phone and an online store to sell it. With a powerful chip, camera, and availability on Verizon's network later this year, it could appeal to consumers worried about the spotty 3G coverage provided by the iPhone's U.S. carrier, **AT&T.** (AT&T also says it will sell five phones using Google's **Android** software in coming months.) On the day of the Nexus One launch, Apple bought a mobile advertising firm called **Quattro Wireless** for around $275 million. The message from Apple's Infinite Loop campus to the Googleplex: Come after our phone business, and we'll come after your ad dollars.

| BW | PAGE 072 "Five Ways the 'iPad' May Change the World"

Beam me up, Nexus One: Google is making a play for the iPhone crowd

## LEADERSHIP

### DORGAN, DODD STEP DOWN

**Senator Byron Dorgan,** a North Dakota Democrat, said on Jan. 5 that he won't seek reelection after 30 years in Congress, including 17 in the Senate. Dorgan was one of just eight senators who voted in 1999 against the repeal of **Glass-Steagall** fire walls between banks, investment banks, and insurance companies, warning that repeal would expose the financial system to too much risk. Coming the day before **Senator Chris Dodd (D-Conn.)** announced his retirement, Dorgan's move will cause more angst for his party; Dodd is likely to be succeeded by a Democrat, but a Republican may well grab Dorgan's seat, potentially depriving the Dems of their 60-seat supermajority.

| BW | PAGE 025 "Dodd Unbound: Is He Now Free to Deal?"

**33%**

Increase in Ford's December unit sales from the year before. New-vehicle sales for the industry rose 15%.

## ECONOMICS & POLICY

### BEN SAYS IT AIN'T SO

Don't blame the **Fed** for the crash, said **Chairman Ben Bernanke** in a speech to the **American Economic Assn.** on Jan. 3. Bernanke all but absolved the central bank for keeping interest rates low early in the decade, a policy many have targeted as a major factor in pumping up the housing bubble. Bernanke called the link "weak" and said the real culprit was lax regulation. Lawmakers and media pundits pounced on Bernanke's conclusion, with **Stanford University** economist **John Taylor**—whose formula Bernanke cited as evidence for his position—saying "overwhelming" evidence linked loose monetary policy to the crisis. Other economists and commentators said Bernanke, who faces a Senate confirmation vote this month to remain chairman, also downplayed the Fed's failures in regulating banks.

### GREECE IN HOT WATER

**European Union** officials arrived in debt-ridden Greece on Jan. 6 for three days of examining the country's plans to slash its bloated budget deficit, now at 12.7% of GDP. By cutting spending and hiking taxes, Athens aims to chop the deficit to 8.7% this year and to the frequently violated EU maximum of 3% by 2012. The country's woes have

(SMARTPHONE) ROBERT GALBRAITH/REUTERS



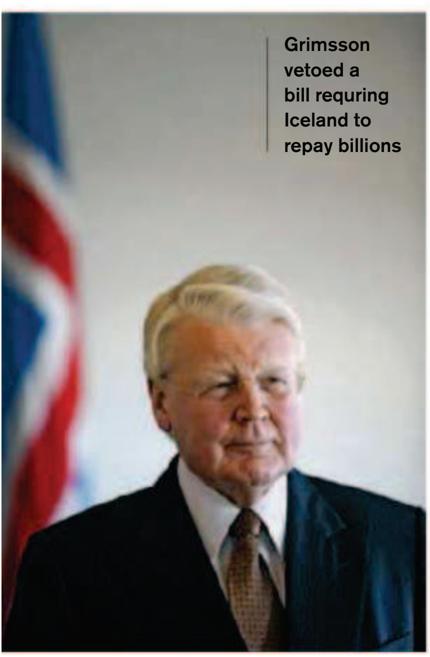
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# EXECUTIVE SUMMARY

roused speculation that the EU will have to stage a bailout, and Greek bonds briefly took a pasting when a **European Central Bank** official said no rescue was going to happen. **Greek Finance Minister George Papaconstantinou** did his best to calm the waters, saying in an interview on Bloomberg TV: "We don't expect to be bailed out by anybody.... There is no Plan B. Greece will do what it takes."

## ICELAND ICES INVESTORS

Another troubled European nation, **Iceland,** delivered a bombshell on Jan. 5 when **President Olafur Grimsson** vetoed legislation that would have forced Iceland to repay $5.5 billion to Britain and the Netherlands. The money was meant to cover losses by British and Dutch savers who lost heavily when Iceland's **Landsbanki** went bust in 2008. It's only the second time since 1944 that the largely ceremonial head of state has issued a veto, and almost three-quarters of Icelanders support the move. A national referendum will now decide whether Iceland should repay the debt. The uncertainty prompted **Fitch Ratings** to downgrade Iceland's debt rating to BB+ and could jeopardize financial aid promised by the **International Monetary Fund.**



Grimsson vetoed a bill requring Iceland to repay billions

(GRIMMSON) OLIVIER MORIN/AFP/GETTY IMAGES

## FACTORIES FIRE UP

Global assembly lines are starting to hum. In December the **HSBC** Chinese purchasing managers' index rose to a seasonally adjusted 56.1, the best reading since April 2004 and up from a low of 40.9 in November 2008. In the U.S., the manufacturing index of the **Institute for Supply Management** (ISM) climbed to 55.9, the highest level in more than three years, up from 53.6 the previous month. Still, the ISM survey of U.S. service industries showed less of an uptick than forecast, suggesting that the largest part of the economy is bouncing back more slowly than the factory sector. And on Jan. 5 came a dismal housing number: Contracts to buy previously owned U.S. homes crumbled by 16% in November, far more than experts had predicted. That sparked talk that the modest revival could turn into a second slump.

| BW | PAGE 028 "Slashing Principal: Lenders' Last Resort"

## IT'S COLD OUT THERE

As if the economy didn't have enough to contend with, the weather is adding a frigid wrinkle to recovery hopes. Brutal temperatures in Asia, Europe, and the U.S. helped push crude oil prices past $83 a barrel on Jan. 6, the loftiest






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close in nearly 15 months. That trend could continue, as the U.S. Northeast, which burns up about four-fifths of the country's heating oil, is expected to remain bitterly cold through Jan. 15. Oil prices have surged 20% since touching $69.51 on Dec. 14. Other commodities, including coal, orange juice, and wheat, have been rising, too.



Frigid weather on three continents has sent oil prices past $83 a barrel, a 15-month high

### STRATEGY

### NOVARTIS SPIES A DEAL

In the biggest takeover in Swiss history, pharma giant Novartis kicked off the New Year by spending nearly $50 billion to capture eye-care specialist **Alcon.** On Jan. 4, Novartis exercised its option to acquire **Nestlé's** 52% stake in Alcon for $39.3 billion and offered to pay 2.8 of its own shares for each remaining Alcon share held by the public, for a potential cost of more than $11 billion. With prescription drug sales losing vigor, Novartis is doing everything it can to diversify into livelier areas of health care. Novartis bought a 25% stake in Alcon from Nestlé for $10.4 billion two years ago.

PAGE 026 "What Novartis Sees in Eye Care"

### THE FIGHT FOR CADBURY

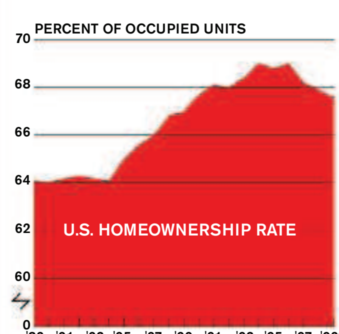
**Kraft Foods'** bid for the British candy maker got stickier on Jan. 5 as Kraft's biggest shareholder, **Warren Buffett,** voiced his displeasure with its plan for a share issue to help pay for the deal. Kraft could still prevail: It boosted the cash portion of its $17.5 billion offer on Jan. 5 after

## IDEAS HOMEOWNERSHIP: LESS THAN MEETS THE EYE

Living in your own home—it's a cornerstone of the American dream. And the U.S. has long boasted one of the highest rates of homeownership of any country, thanks in no small part to tax breaks for mortgage borrowers. That rate climbed steadily for a decade on the strength of demographic factors and the availability of newfangled mortgage products, peaking at 69% toward the end of 2006. Since then, soaring unemployment and a wave of foreclosures have pulled down the rate by 1.7 percentage points, to its current level of 67.3%, as reported by the **U.S. Census Bureau.**

Yet according to "The Homeownership Gap," a paper from the **Federal Reserve Bank of New York,** official figures are overstated because they do not exclude owners whose homes are worth less than the outstanding balance on their mortgages. Separate out those folks—they are, after all, more like renters than owners—and in some cities, including Detroit, Las Vegas, Phoenix, and San Diego, homeownership rates are 25 to 45 percentage points below the reported figures, say the study's authors, **Andrew Haughwout, Richard Peach,** and **Joseph Tracy.**

### GIMME SHELTER




*As of third quarter
Data: U.S. Census Bureau

The implications of these findings are important for the U.S. economy at both macro and micro levels. "Reductions in the homeownership rate may create a large set of residents who may be less invested in the long-run outlook for their homes and communities," says the paper. The potential result: a deterioration in the maintenance of the housing stock and potentially in the stability of neighborhoods. At the national level, look for the savings rate to rise as homeowners who are underwater now do their best to scrape together the money for a new down payment.

Federal Reserve Bank of New York

JOSH BIGGS/ARIZONA DAILY SUN/AP PHOTO; CHART BY DAVID FOSTER



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Mr. Shane Izaks
*General Manager, IT*

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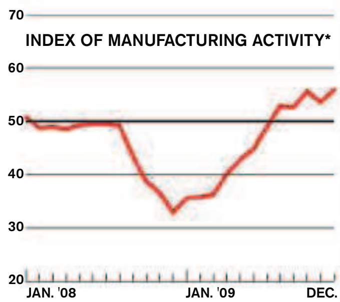
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# EXECUTIVE SUMMARY

## THERE'S A PULSE




*A reading over 50 indicates expansion
Data: Institute of Supply Management

raising $3.7 billion by selling off its frozen pizza business to **Nestlé.** Meanwhile, **Hershey's** board met on Jan. 4 to ponder making an offer but remains divided, though *The Wall Street Journal* reported on Jan. 6 that Cadbury has made back-channel approaches suggesting it would look kindly on a Hershey bid. Nestlé has taken itself out of the sweet sweepstakes, and Cadbury shares on Jan. 6 had fallen to less than 1% above the value of Kraft's offer.

### THE EIGHTH WONDER?

Dubai may be drowning in debt, but it still knows how to make a splash. The Jan. 4 opening of the world's tallest building was heralded by an hourlong fireworks and colored fountain display. Spectacular as the 2,717-foot needle-topped building may be, it's unlikely to distract from the emirate's troubles. The $1.5 billion extravaganza opened its doors at a time when local real estate prices are down 50%, with no recovery in sight, and Dubai is struggling to repay $90 billion in loans. Even the building's name is a reminder of Dubai's dilemmas. It was changed from Burj Dubai to **Burj Khalifa** in honor of the ruler of **Abu Dhabi, Sheikh Khalifa bin Zayed Al Nahyan,** who has spent $25 billion bailing out his profligate neighbor and may have to spend more in coming months.

## FINANCE

### CREDIT SUISSE GETS SUED

Real estate developers are suing Credit Suisse and U.S. real estate firm **Cushman & Wakefield** for $24 billion, charging the defendants with racketeering, fraud, and other misdeeds. In a lawsuit filed on Jan. 3 on behalf of at least 3,000 investors, developers **L.J. Gibson** and **Beau Blixseth** seek damages related to now-bankrupt ski resorts in Montana and Idaho and equally posh properties in Las Vegas and the Bahamas. They say the defendants ginned up inflated appraisals and the bank then charged huge fees on loans, which spurred investors to leverage the properties perilously. If the resorts couldn't pay the loans back, Credit Suisse could assume ownership or sell them off. The bank and the real estate firm denied the charges.



The $1.5 billion Burj Khalifa was renamed for Dubai's financial savior

KARIM SAHIB/AFP/GETTY IMAGES




**THE OPTIMISM METER**

### WILL THE BULLS RETURN?

The Meter clocked in at 52 on Jan. 5, up from 49 the week before but down from the high of 56 in late December, as enthusiasm for U.S. equities waned and then returned. Investors expect the Standard & Poor's 500-stock index to be less volatile over the next 30 days, and only 14% of individuals are predicting a drop over the next 12 months. Developed by ***Bloomberg BusinessWeek*** using data from pollster **YouGov,** the Meter is a proprietary measure of sentiment and expectations, economic statistics, and market forecasts. It tracks shifts in outlook among individuals, professional investors, and economists about U.S. economic growth, jobs, equity markets, and real estate.

Calculated using consumer polling, economic forecasts, and financial markets data; 0=lowest and 100=highest   Data: YouGov, *Bloomberg BusinessWeek*



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# AT THE TABLE CHARLIE ROSE






Stringer, in Tokyo, believes Sony's advantage in 3D technology will soon pay off

## SIR HOWARD STRINGER
## Why Sony Is About to Snap Back

(TOP) BRAD TRENT; (BOTTOM) SARAH A. FRIEDMAN/CONTOUR BY GETTY IMAGES

On the eve of the Consumer Electronics Show in Las Vegas—the annual debutante ball for tech—I talked with Sir Howard Stringer, chairman and CEO of Sony, which because of cautious consumers and currency woes has been battered by the recession. But Sir Howard, who has sat atop Sony for almost five years, believes that the worst is behind him and that the products unveiled in Vegas—especially those involving 3D—will make quite a splash.

CHARLIE ROSE
**What will you say at CES about Sony's product lineup?**

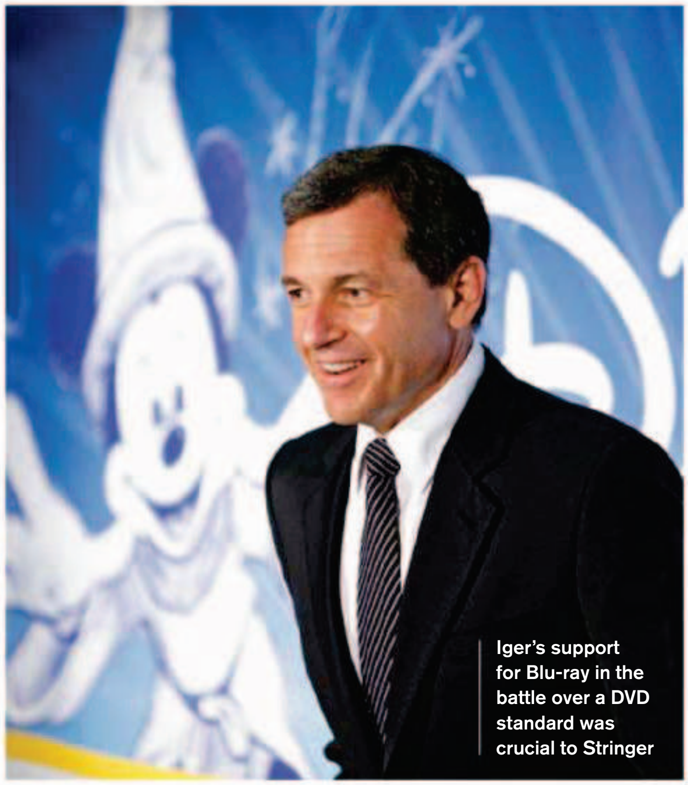
SIR HOWARD STRINGER
This year we're going to swamp the marketplace with innovation and new products, and we're going to particularly focus on 3D because we have so many assets compared with anybody else—from cameras to projectors to 3D video games to TVs to Blu-ray—everything can be 3D with us. Size finally matters again, so that is an advantage we intend to demonstrate at CES.

**And how cost-effective will 3D be?**
When you embark on anything involving technology, you have a hiatus between the vision and the experience. So the profitability will come in unpredictable ways. Obviously we're now making money on 3D in movies. We are equipping theaters with 3D projectors. We are making 3D cameras. *Avatar* was done with Sony cameras. But with creativity, you have to be there at the beginning. You have to plant a stake in the ground, and you have to be prepared to spend money to make money.



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**This is a big bet for Sony?**
I think you would have said that a year ago. But already, half of it is paying off. So the next half is the extension of 3D into your computer, camera, video game, and so forth. And as it migrates from device to device, our basic investment is the same. We had no choice but to drive into 3D because, for one thing, piracy is such an enemy. It's the villain of content, and 3D is harder to pirate. And it's a bet we had to make because if you stand still with technology, you're crushed.



Iger's support for Blu-ray in the battle over a DVD standard was crucial to Stringer

**In November you announced cutbacks at Sony. What was the strategy?**
Well, first of all [laughs], we wanted to be profitable.

**And that would be a change.**
Well, yes. But remember, two years ago we had record profits. Then we rolled into the recession. And I do have to remind people that we were hit harder in part because of the high yen. So we lost 10% or 15% of our profitability just on currency and foreign exchange alone.

## "WE'VE DONE A LOT OF REALLY TOUGH THINGS THAT PEOPLE HATED BUT RALLIED AROUND.... WE LAID OFF 18,000 PEOPLE"

Then you have high labor costs in Japan. And if you add to that all the other aspects of recession, there's an easy explanation, but you get tired of saying it. Toyota was poised to become the biggest motorcar company in the world and then walked into the same problem. We've done a lot of really tough things that people hated but rallied around to do. We laid off 18,000 people.

**So you ought to be poised in 2010 to have a profitable year?**
Well, certainly that's the goal. We're trying to break even for 2009. That's what we've been trying to accomplish. I can't really talk about that at the moment, but I think the most difficult things are behind us, and I hope CES will demonstrate that all the cost-cutting we felt was necessary hasn't slowed the ability to create. We have three different e-readers, you know, including the wireless one.

**You have acknowledged it was a mistake not to have wireless delivery as Amazon did with the Kindle.**
Wasn't a mistake, we just didn't do it.

**O.K. It was a mistake because it helped the Kindle gain market share.**
Yes. We were the first to put the E-reader back into the market, but there was hesitation in Japan because it had failed in Japan previously. So there was a tug-of-war between different parts of Sony. There isn't anymore.

**Is having content and hardware a competitive advantage?**
When people write the history books, they will say the victory of Blu-ray was won because we own a studio. Toshiba offered a cheaper version, but we offered a more expensive version with greater capacity, which we said at the time would open the door to 3D, and it did. If we didn't own a content company, we wouldn't have been able to [prevail].

**People who know the story of how Blu-ray prevailed will argue that it had, in part, to do with your personal relationships.**
All businesses depend on relationships at some point. And, yes, I had enormous support from Bob Iger [at Walt Disney] and Peter Chernin [at News Corp.]. I remember having a conversation with Bob and saying: "It's going to cost us a lot of money to deliver Blu-ray." And Bob said: "I believe in it because I believe in superior technology, and I'm behind you 100%. You don't not have to worry about me." I almost choked up on that one.

**Is it fair to say Sony was behind in the digital revolution when you arrived ?**
I thought Sony had been brilliant in vision and short on execution because the digital world is very different from the analog world. A digital future requires horizontal interrelationships. So we effectively had to rebuild the infrastructure.

**You have said: "I want to turn around Sony. And when I accomplish that, I'll retire."**
It's quite well put, but it's not how I put it. I think it's my role to set [Sony] on a road that everybody agrees is the right strategic direction for the company. Then I won't be needed.

**Someone once wrote: "They expect a lot of Stringer, but he's not God."**
I have never been someone who operated as a lonely leader. I'm a collaborator. And that means communication, a dash of inspiration from time to time, and a lot of motivation. And those, in combination, will carry the day if, indeed, the day is carried. I've never been put on a pedestal at Sony, and I've never attempted to climb on one. |BW|

DANNY MOLOSHOK/REUTERS



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BUSINESS OUTLOOK | SIMON KENNEDY

# FUNNY, IT DOESN'T FEEL LIKE A RECOVERY

**The recession may be technically over, but stubborn unemployment and building price pressure mean that many consumers will remain gloomy**

Even as the global economy creeps out of its worst recession since World War II, a key indicator of well-being is flashing red for policymakers. From the U.S. to Europe, so-called misery indexes—the sum of a country's unemployment and inflation rates—are rising toward levels unseen for much of the last two decades. That's particularly worrisome because the anxiety generated by the actual or anticipated loss of a paycheck alongside accelerating prices could leave average consumers unable or unwilling to spend enough to keep the economic recovery alive. Public officials may also face pressure to keep stimulating their economies or risk losing the support of voters.

An invention of American economist Arthur Okun, an adviser to President Lyndon Johnson, America's misery index now stands at 11.8%, the highest since May 1991 and more than 3 percentage points above its average since.

For now, the gloom is not as deep in other industrial economies. But that may change as payrolls keep shrinking and inflation picks up after the deflation scare of 2009. That's especially true in Europe, where tighter hiring and firing rules tend to delay job cuts. While well below the 36.1% of Venezuela and the U.S.'s 1980 peak of 22%, the misery indexes for Britain, Canada, and the 16-nation euro zone are already higher than a year ago.

Many eco-watchers believe the malaise will linger, thanks to a jobless recovery. U.S. unemployment, already near its highest level in 26 years at 10%, won't peak until it reaches about 10.75% in 2011, predict economists at Goldman Sachs. And the European Commission forecasts joblessness in the euro zone will average 10.9% next year, up from 9.8% in October and the highest since the single currency debuted in 1999.

Already, companies are scrambling to entice anxious consumers. Wal-Mart, for example, offered a $50 gift card to purchasers of an Xbox 360 game console after Christmas. And McDonald's began offering a $1 breakfast menu nationally for the first time this month.

The last time the U.S. misery index was this high, in the early 1990s, gains in consumer prices accounted for almost half its reading. Today inflation makes up less than a fifth of the measure. That lack of price pressure should allow central banks such as the Federal Reserve to delay raising interest rates until employment improves. The median forecast in a recent Bloomberg survey of economists was for the Fed to leave its benchmark rate near zero until the third quarter, and then only lift it to 0.75% by yearend.

Governments won't have as many options to goose their economies since they have already run up record budget deficits to fight the financial crisis. The U.S. has a shortfall of more than $1 trillion, while 13 of the nations using the euro are under EU-imposed deadlines to reduce their deficits. That means even if they wanted to curb joblessness and appease voters, many governments lack the resources to further cut taxes or boost spending.

That's why economist Pierre Cailleteau of Moody's Investors Service believes combining the unemployment rate and budget deficits as a share of gross domestic product may yield a better measure of modern misery.

On that score the U.S. has an index of just over 20%, evenly split between its budget gap and joblessness. That's more than double where it was in 2007. Spain's index is almost a bruising 30%.

Whichever methodology you use, the misery metric will likely have political implications near-term. British Prime Minister Gordon Brown must call an election by June with his traditional misery index now at 10.6%, while U.S. President Barack Obama faces his first midterm congressional elections in November. Their opposition will surely seek to capitalize on voter discomfort with the economy.

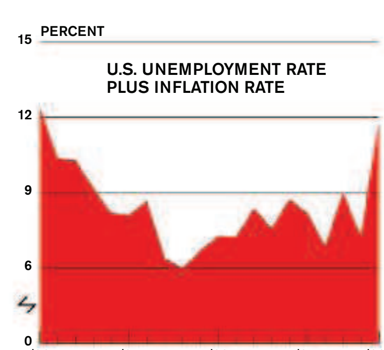
That's what happened in 1976 when Jimmy Carter exploited a misery index of around 13% to help defeat Gerald Ford for the Presidency—only to see it rise to more than 20% four years later, costing him the same job. So unless they can cut their current indices, lawmakers could suffer their own form of misery this year: lost elections. |BW|

**2013**

**The earliest employment in advanced economies could return to pre-crisis levels without further stimulus.**

Data: International Labor Organization

## THE MISERY INDEX ROARS BACK




Data: Bloomberg



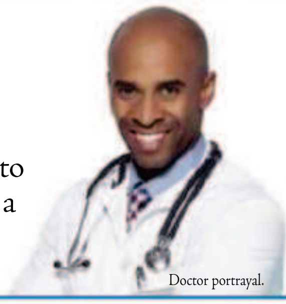
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# “I was originally too embarrassed to have ‘the talk’ with my doctor, but now I wish I’d done it sooner.”

## Your Doctor Talks to Men About ED Every Day

Your doctor will tell you that erectile dysfunction (ED) isn’t something to keep to yourself, or to be embarrassed about. It’s a common medical condition he can treat.



Doctor portrayal.

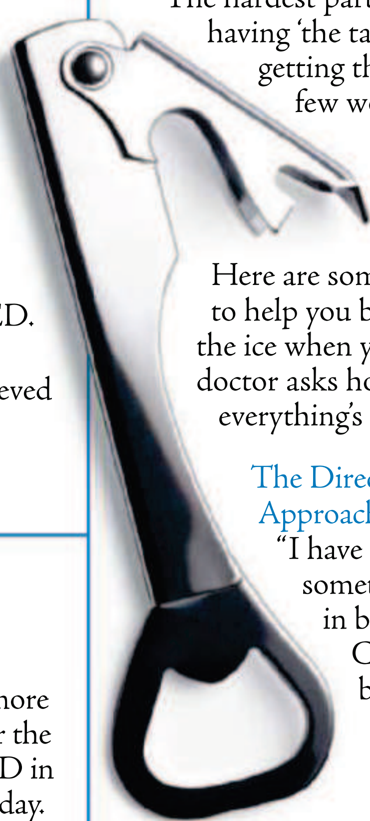
## Running the Numbers

Did you know half of all guys over 40 have some form of ED? Here are some numbers to keep in mind from a recent survey of men with ED:

**71%** of men were anxious about talking to their doctor about ED.

**89%** of men felt relieved after talking to their doctor.

## Don’t Keep Your Questions Bottled Up



The hardest part about having ‘the talk’ is getting those first few words out.

Here are some ideas to help you break the ice when your doctor asks how everything’s going:

The Direct Approach:
“I have trouble sometimes in bed. Could it be ED?”

The Indirect Approach:
“Is it true age affects sexual performance?”

The Silent Approach:
Just hand this ad to your doctor, he’ll take it from there.



## Tell Me More

To learn more about VIAGRA for the treatment of ED, and ED in general, visit **viagra.com** today. You’ll find an online sexual health quiz, videos of guys with ED who’ve had the VIAGRA Talk and other helpful information.

Over 20 million men have already had their VIAGRA Talk. Isn’t it time you had yours?

## Important Safety Information

We know that no medicine is for everyone. Don’t take VIAGRA if you take nitrates, often prescribed for chest pain, as this may cause a sudden unsafe drop in blood pressure.

Talk with your doctor first. Make sure your heart is healthy enough to have sex. If you have chest pain, nausea, or other discomforts during sex, seek medical help right away.

As with any ED tablet, in the rare event of an erection lasting more than four hours, seek immediate medical help to avoid long-term injury.

In rare instances, men who take PDE5 inhibitors (oral erectile dysfunction medicines, including VIAGRA) reported a sudden decrease or loss of vision, or sudden decrease or loss of hearing. It is not possible to determine whether these events are related directly to these medicines or to other factors. If you experience any of these symptoms, stop taking PDE5 inhibitors, including VIAGRA, and call a doctor right away.

The most common side effects of VIAGRA are headache, facial flushing, and upset stomach. Less common are bluish or blurred vision, or being sensitive to light. These may occur for a brief time.

VIAGRA does not protect against sexually transmitted diseases including HIV.

Please see Important Facts for VIAGRA on the following page or visit viagra.com for full prescribing information.

**For free information, including questions to ask your doctor, call 1-888-4VIAGRA (1-888-484-2472).**

VIAGRA® (sildenafil citrate) tablets

*You are encouraged to report negative side effects of prescription drugs to the FDA. Visit www.FDA.gov/medwatch or call 1-800-FDA-1088.*

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# IMPORTANT FACTS

VIAGRA® (sildenafil citrate) tablets (vi-AG-rah)

## IMPORTANT SAFETY INFORMATION ABOUT VIAGRA

Never take VIAGRA if you take any medicines with nitrates. This includes nitroglycerin. Your blood pressure could drop quickly. It could fall to an unsafe or life-threatening level.

## ABOUT ERECTILE DYSFUNCTION (ED)

Erectile dysfunction means a man cannot get or keep an erection. Health problems, injury, or side effects of drugs may cause ED. The cause may not be known.

## ABOUT VIAGRA

VIAGRA is used to treat ED in men. When you want to have sex, VIAGRA can help you get and keep an erection when you are sexually excited. You cannot get an erection just by taking the pill. Only your doctor can prescribe VIAGRA.

VIAGRA does not cure ED.

VIAGRA does not protect you or your partner from STDs (sexually transmitted diseases) or HIV. You will need to use a condom.

VIAGRA is not a hormone or an aphrodisiac.

## WHO IS VIAGRA FOR?

### Who should take VIAGRA?

Men who have ED and whose heart is healthy enough for sex.

### Who should NOT take VIAGRA?

- If you ever take medicines with nitrates:
  - Medicines that treat chest pain (angina), such as nitroglycerin or isosorbide mononitrate or dinitrate
- If you use some street drugs, such as "poppers" (amyl nitrate or nitrite)
- If you are allergic to anything in the VIAGRA tablet.

## BEFORE YOU START VIAGRA

### Tell your doctor if you have or ever had:

- Heart attack, abnormal heartbeats, or stroke
- Heart problems, such as heart failure, chest pain, or aortic valve narrowing
- Low or high blood pressure
- Severe vision loss
- An eye condition called retinitis pigmentosa
- Kidney or liver problems
- Blood problems, such as sickle cell anemia or leukemia
- A deformed penis, Peyronie's disease, or an erection that lasted more than 4 hours
- Stomach ulcers or any kind of bleeding problems

**Tell your doctor about all your medicines.** Include over-the-counter medicines, vitamins, and herbal products. Tell your doctor if you take or use:

- Medicines called alpha-blockers to treat high blood pressure or prostate problems. Your blood pressure could suddenly get too low. You could get dizzy or faint. Your doctor may start you on a lower dose of VIAGRA.
- Medicines called protease inhibitors for HIV. Your doctor may prescribe a 25 mg dose. Your doctor may limit VIAGRA to 25 mg in a 48-hour period.
- Other methods to cause erections. These include pills, injections, implants, or pumps.

## POSSIBLE SIDE EFFECTS OF VIAGRA

Side effects are mostly mild to moderate. They usually go away after a few hours. Some of these are more likely to happen with higher doses.

**The most common side effects are:**

- Headache
- Feeling flushed
- Upset stomach

**Less common side effects are:**

- Trouble telling blue and green apart or seeing a blue tinge on things
- Eyes being more sensitive to light
- Blurred vision

**Rarely, a small number of men taking VIAGRA have reported these serious events:**

- Having an erection that lasts more than 4 hours. If the erection is not treated right away, long-term loss of potency could occur.
- Sudden decrease or loss of sight in one or both eyes. We do not know if these events are caused by VIAGRA and medicines like it or caused by other factors. They may be caused by conditions like high blood pressure or diabetes. If you have sudden vision changes, stop using VIAGRA and all medicines like it. Call your doctor right away.
- Sudden decrease or loss of hearing. We do not know if these events are caused by VIAGRA and medicines like it or caused by other factors. If you have sudden hearing changes, stop using VIAGRA and all medicines like it. Call your doctor right away.
- Heart attack, stroke, irregular heartbeats, and death. We do not know whether these events are caused by VIAGRA or caused by other factors. Most of these happened in men who already had heart problems.

If you have any of these problems, stop VIAGRA. Call your doctor right away.

## HOW TO TAKE VIAGRA

Do:

- Take VIAGRA only the way your doctor tells you. VIAGRA comes in 25 mg, 50 mg, and 100 mg tablets. Your doctor will tell you how much to take.
- If you are over 65 or have serious liver or kidney problems, your doctor may start you at the lowest dose (25 mg).
- Take VIAGRA about 1 hour before you want to have sex. VIAGRA starts to work in about 30 minutes when you are sexually excited. VIAGRA lasts up to 4 hours.

Don't:

- Do not take VIAGRA more than once a day.
- Do not take more VIAGRA than your doctor tells you. If you think you need more VIAGRA, talk with your doctor.
- Do not start or stop any other medicines before checking with your doctor.

## NEED MORE INFORMATION?

- This is only a summary of important information. Ask your doctor or pharmacist for complete product information OR
- Go to **www.viagra.com or call (888) 4-VIAGRA (484-2472).**

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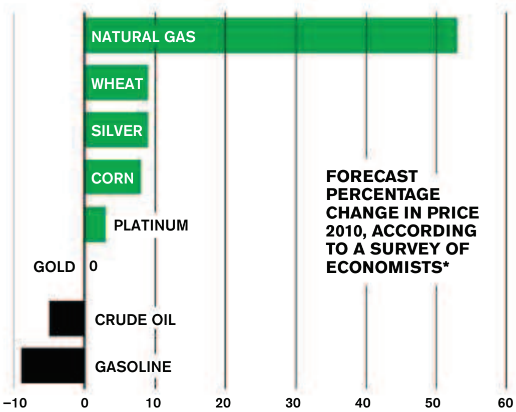
# NUMBERS

## IN THE LAST DECADE, STOCKS FLOPPED AND COMMODITIES ROCKED

By Tara Kalwarski/Charts by David Foster

Most major commodity groups rallied in 2009, completing a decade in which both commodities and bonds outperformed stocks. Economists see further gains in 2010 for natural gas, but not for oil.

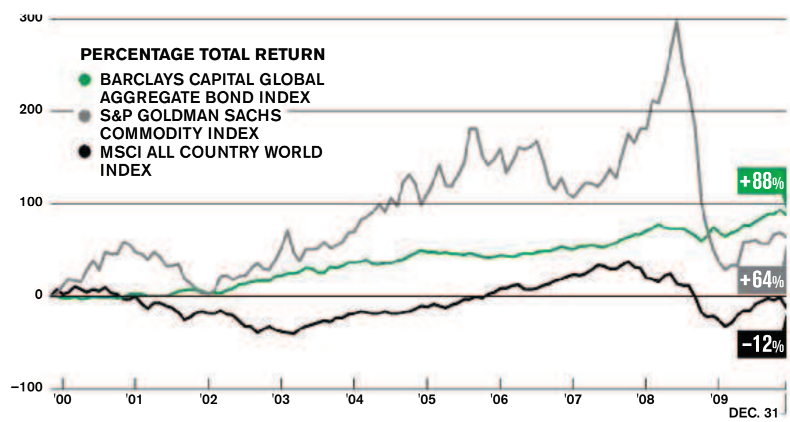
**2010 Price Predictions:** Oil and gasoline prices are forecast to decline next year.




Data: Bloomberg

*As of Dec. 31

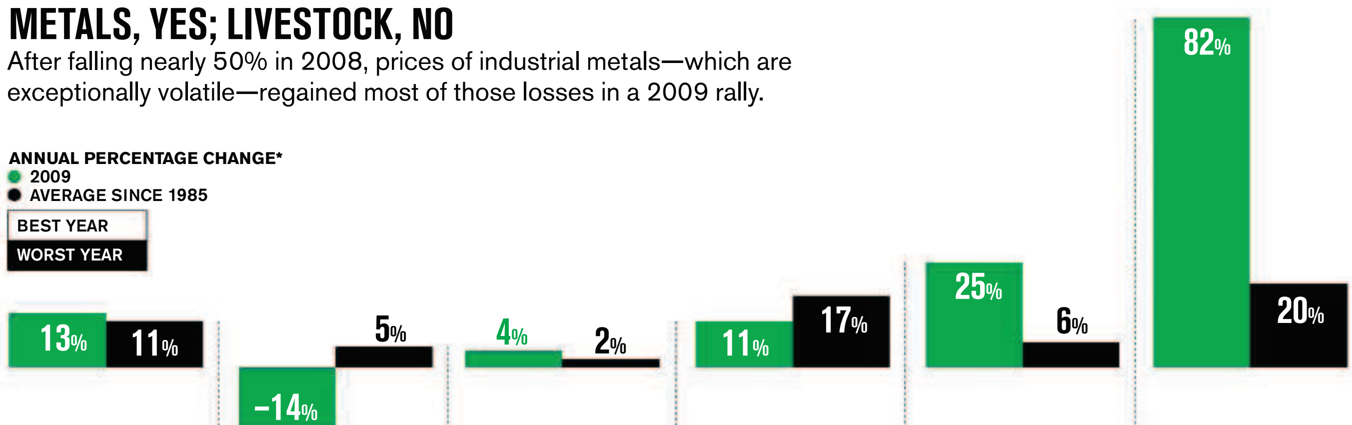
**Steady Wins the Race:** Commodities peaked, then plummeted, leaving bonds as the decade's best performer.




Data: Bloomberg

## METALS, YES; LIVESTOCK, NO

After falling nearly 50% in 2008, prices of industrial metals—which are exceptionally volatile—regained most of those losses in a 2009 rally.




| | OVERALL COMMODITIES | LIVESTOCK | AGRICULTURE | ENERGY | PRECIOUS METALS | INDUSTRIAL METALS |
|---|---|---|---|---|---|---|
| Best year | 2000 +50% | 1987 +47% | 1988 +29% | 1999 +92% | 2007 +28% | 1987 +154% |
| Worst year | 2008 –46% | 1998 –28% | 2008 –29% | 2008 –52% | 1997 –14% | 2008 –49% |

Data: Bloomberg

*Commodity returns calculated using Standard & Poor's/Goldman Sachs indexes



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# Invasion of the Body Scanners

## Digital security scans are coming to more airports. They'll increase aggravation, but won't help security much

**By Aaron Ricadela**

Brace yourselves, beleaguered fliers. As politicians push for more computerized body scans in the wake of the thwarted Christmas Day terror attack, a small group of security companies stands to benefit from a surge in orders. But the scans could add another layer of hassle to an already miserable airport experience—and not make the world's aviation system much safer. "It's completely reactionary," says Michael Boyd, president of aviation consulting company Boyd Group International in Evergreen, Colo. "Everything we're doing is reacting to a terrorist threat, not anticipating one."

The U.S., Britain, and the Netherlands are already pressing ahead with plans for increased use of the full-body scanners. The U.S. Transportation Security Administration, which has 40 scanners in place at 19 airports so far, has spent $25 million on 150 additional scanners and plans to buy 300 more. The devices, which are placed at security checkpoints, use radio waves or low-level X-rays to produce detailed images of passengers' bodies—and weapons or explosives beneath their clothes.

That may just be the start of the security push. Senators Joseph Lieberman (ID-Conn.) and Arlen Specter (D-Pa.) advocate increased use of the machines, and Lieberman plans to hold a Senate hearing on airport security later this month that will call for more passenger scans. On Jan. 5, President Barack Obama said stepped-up security measures would be put in place soon. Even Representative Jason Chaffetz (R-Utah), a longtime critic of body scans who calls them a "virtual strip search," says political opposition to the machines has evaporated since the Christmas Day plot. "Nobody wants to appear to be soft on security," he says.



The new security scanner at Schiphol airport in the Netherlands

### NEW ATTACK MODES

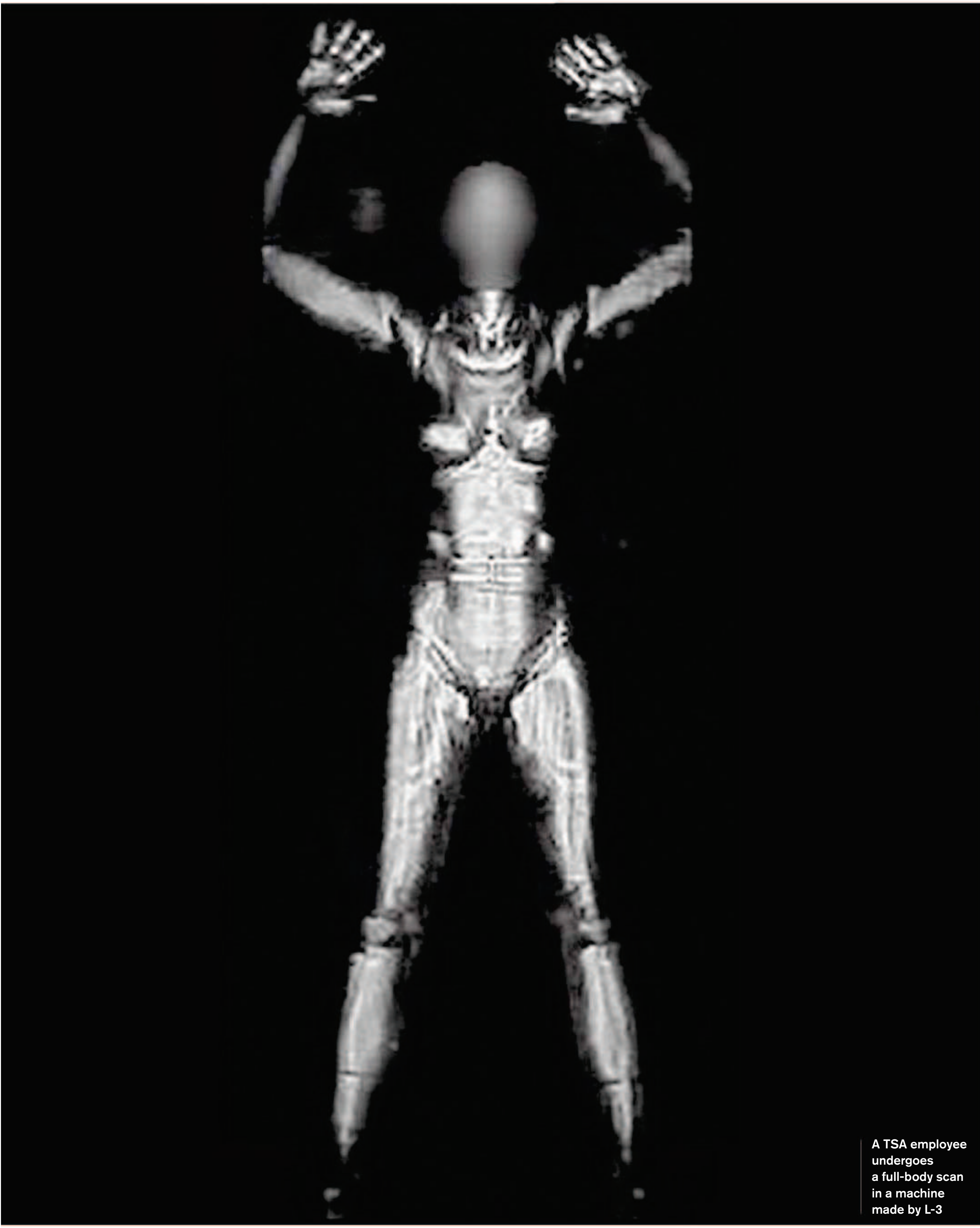
Body scanners could certainly deter some terrorist attacks. They're designed to flag plastic weapons or chemicals explosives like those Nigerian Umar Farouk Abdulmutallab allegedly had hidden in his underwear on Dec. 25. But critics point out scanners can't always detect low-density materials, such as powders or liquids, or items inside the body. Boyd fears that installing a bunch of scanners now could motivate terrorists to find new means of attack while costing hundreds of millions of dollars that could be better spent anticipating the next move. "You can't stop terrorism," he says. "You can only deter it" as effectively as possible.

The biggest beneficiaries of a scanner boom will likely be L-3 Communications of New York and Torrance (Calif.)-based Rapiscan Systems, part of OSI Systems. They're the only scanner makers approved so far by the TSA, which already has contracts with them

(L TO R) PHOTOGRAPHS BY JERRY LAMPEN/REUTERS; BLOOMBERG



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A TSA employee undergoes a full-body scan in a machine made by L-3



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that could top $100 million apiece. If the TSA decides to install the machines at all 2,100 security lanes in the U.S., that could produce total revenue of $300 million to $400 million. "The TSA is saying, 'Let's accelerate the process,'" says Richard Hoss, a senior research analyst with Roth Capital Partners. "It's likely to benefit these companies." The stocks of OSI and L-3 are up 29% and 2%, respectively, since Christmas Day.

Other manufacturers could get in on the game in the future. London's Smiths Group is trying to win TSA approval for its machines. American Science & Engineering in Billerica, Mass., has provided scanners to the agency in the past and is believed to be seeking approval again. The company declined to comment.

#### SLOWER SURVEILLANCE?

Few travelers to date have encountered body scans. Of the 40 TSA machines in use, only 6 are used for so-called primary screening of all passengers. The rest are reserved for those pulled aside for secondary screening. Amsterdam's Schiphol airport has 15 body scanners but will likely need more to meet the country's directive to screen all passengers on U.S.-bound flights.

The current U.S. machines are made by L-3 and use high-frequency radio waves to render 3D images of passengers' bodies (chart). The TSA's next 150 scanners will come from Rapiscan. It uses a second technology approved by the agency, backscatter X-rays, which create two-dimensional images of passengers as well as weapons and explosives that standard airport metal detectors don't pick up.

Skeptics worry that scanners will slow down the security process; it takes 15 to 25 seconds for an individual to pass through one. But much depends on whether the machines replace or supplement existing equipment. The manufacturers argue that their devices minimize the need for separate metal detectors, and actually speed up the process. Too much technology "either makes the checkpoint look like a Best Buy showroom or makes passengers very annoyed," says Peter Kant, an executive vice-president at Rapiscan.

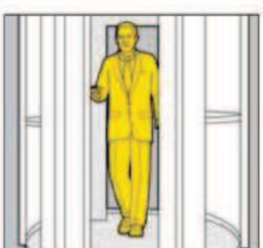
The TSA hasn't disclosed how its new machines will be used but says it's aware of the concerns. "There's a balance that has to take place between customer service and security," says spokeswoman Ann Davis. The TSA also is addressing privacy fears—making sure scanners blur facial features and genitalia—and deleting images after use.

Still, critics say there are more effective ways to address security threats. Funds could pay for more bomb-sniffing dogs, tighter management of terrorist watch lists, or better intelligence. Instead, opponents say, politicians will spend money addressing the last threat, as they did after September 11, the shoe bomber, and other attempted attacks. "Every time something goes wrong, there must be a problem and someone to blame," says Bruce Schneier, chief security technology officer at BT Group and a security industry gadfly. "If we use full body scans, [terrorists] are going to do something else. This is a stupid game, and it's time we stop playing it." | BW |

**CRITICS ASK: WHY NOT SPEND MORE ON BOMB-SNIFFING DOGS, CLOSER MONITORING OF WATCH LISTS, OR BETTER INTELLIGENCE?**

## THE FUTURE OF AIRPORT SECURITY

**Dutch and British officials have already begun using full-body scanners, which are set to become far more common at the world's airports. The Transportation Security Administration is testing 40 scanners throughout the U.S. and plans to have 150 more installed this year. Here's what it means for travelers:**



### ENTERING THE SCANNER

A passenger walks into a partially enclosed machine. At some airports all passengers must be scanned or undergo a pat-down. At others the scanners are used for those pulled aside for secondary screening.



### CAPTURING THE IMAGE

The traveler pauses for up to five seconds while the scanner captures a full-body image. U.S. machines use either X-ray or high-frequency radio wave technology to detect chemicals or objects affixed to a body.



### TRANSMITTING THE SCAN

The raw image captured at the checkpoint is transmitted via a computer network to a TSA-manned PC in a remote room. The agency says image analysts don't see passengers as they pass through checkpoints.



### ANALYZING THE PICTURE

Computer algorithms can blur facial features and private areas of the body but reveal hidden weapons or explosives. The images are discarded from the PC after the passenger clears security.



### ADDITIONAL INSPECTION

The remote screener radios a TSA officer at the checkpoint to say whether the passenger can proceed or needs an additional search. Estimated time from start to finish: 15-25 seconds.

ILLUSTRATIONS BY CHRIS PHILPOT



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# Dodd Unbound: Is He Now Free to Deal?

**Why his decision to leave the Senate may give him more leverage to craft a financial reform package**

By Robert Schmidt

Nothing is more unpredictable than a politician freed from the burden of reelection. On Jan. 6, Chris Dodd—the senior Senator from Connecticut and chairman of the banking committee—announced that, in the face of an 11% deficit in local polls, he would not seek a sixth term. Immediately, bank lobbyists, consumer advocates, and Obama Administration advisers wondered what a liberated Dodd might mean for the one interest that unites them: financial regulatory reform

The quick consensus is that, as a lame duck, Dodd now has far more running room to cut a financial reform deal—even if that deal ends up being tamer than he originally intended. Freed from the pressures of mounting a campaign, Dodd is less beholden to a White House demanding quick passage of the bill. He's also freed from liberal activists demanding a consumer protection agency and from Republicans on his committee arguing that he has been merely acting tough toward Wall Street to win reelection.

The draft reforms that Dodd, one of the most productive legislators in the Senate, initially pushed in November had an anti-industry hue. In a season of public rage directed at Wall Street, Dodd needed to showcase his pro-consumer bona fides. Moderate Democrats and Republicans opposed the Dodd draft, stalling progress and tossing the plausibility of timely reform into serious doubt.

Now, with one eye on his legacy, Dodd may cut a deal to cap his three-decade tenure in the Senate. "It's against his interest to carry anyone's water because at the end of the day it's his legacy," said Sam Geduldig, a financial-services lobbyist with Clark Lytle & Geduldig in Washington.



Dodd's past ties to some of Wall Street's biggest firms angered many constituents

EVAN VUCCI/AP PHOTO

Not everyone agrees that Dodd's impending retirement will give the financial overhaul new momentum. His exit plans "may embolden the Republicans to try to stall reform, wait Dodd out, and hope for a more Republican-friendly Senate after the election," says Camden Fine, president of the Independent Community Bankers of America.

Still, Dodd's unshackling gives him new room to negotiate. To get a deal done, Dodd might do away with the standalone consumer agency the White House wants but which his committee's ranking Republican, Richard Shelby of Alabama, opposes. A compromise would also likely displease large Wall Street firms by stripping the Federal Reserve of much of its supervisory power, giving oversight to a new national banking regulator that would combine four existing agencies and would not favor heavyweight banks over smaller ones.

The interests of Dodd's past campaign donors from the Street—such as Citigroup and hedge fund SAC Capital Advisors—no longer matter as much. In fact, it was Dodd's ties to high finance and to mortgage firm Countrywide Financial, that drove much of his constituents' displeasure. The money game may now shift to Senator Tim Johnson, a South Dakota Democrat and victim of a near-fatal stroke in 2006, who is in line to succeed Dodd as Senate Banking chairman.

If Dodd gets a bipartisan bill that can attract the 60 votes needed to clear Senate procedural hurdles, it would be a sweet career-ending win. He would still need to close the gap with a far different House bill, though he may get help from a White House hungry for a major policy achievement. "The fact of the matter is, the Administration will take whatever the Senate passes," said Lendell Porterfield, a former Shelby staffer who represents financial-services companies. |BW|

*–With Alison Vekshin, Catherine Dodge, and James Rowley in Washington*

## HOW DODD'S EXIT ALTERS THE REFORM EQUATION

### THE FED

Dodd will continue his quest to strip the Fed of its bank regulatory role. As a lame duck, though, he may need to compromise with the White House on that issue to get his financial-reform bill passed.

### CONSUMER PROTECTION

GOP opposition to Obama's wished-for consumer financial protection agency may intensify, pressuring Dodd to consider adding consumer protection powers to a proposed bank regulatory agency he supports.



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# What Novartis Sees In Eye Care

**CEO Dan Vasella's $50 billion bet on Alcon could help insulate it from the vagaries of the drug business**

**By Kerry Capell and Dermot Doherty**

Persistence may as well be Daniel Vasella's middle name. The CEO of drug giant Novartis has tried for years to pry eye-care company Alcon from Nestlé. Once he proposed a swap: Nestlé could have Novartis' medical nutrition and baby food business if it would part with Alcon, known for contact lens solutions and all manner of ophthalmic medicines.

The swap never happened. But Novartis has announced that it is finally taking control of Alcon in a deal worth nearly $50 billion, the biggest merger in Swiss history. The ground was set in 2008 when Novartis paid Nestlé $10.4 billion for a 25% stake in Alcon. On Jan. 4, Novartis exercised an option to buy the 52% stake that Nestlé still held in Alcon and agreed to purchase the remaining 23% held by minority shareholders, offering 2.8 shares of Novartis stock for each share of Alcon.

This arrangement isn't without controversy. Some Alcon shareholders are disgruntled because the price of their shares will vary while Nestlé is being paid in cash. If Vasella's plan works, however, the minority shareholders may not be grousing for long. He expects the global eye-care market to grow by as much as 7% annually through 2014 as glaucoma and cataracts become more widespread in countries with aging populations.

That's sturdier than the outlook for prescription drugs. Industry sales are expected to rise by 4% to 6% through 2013, according to research firm IMS Health. The acquisition will also bolster Novartis' existing Ciba Vision lens unit and support its efforts to expand the market for Lucentis, the company's drug for age-related macular degeneration, a leading cause of blindness. Alcon "was always a business that fit well within ours, but it took time and some money to get it," says Vasella.



Contact lens cleansers are among Alcon's broad range of products

ALASTAIR MILLER/BLOOMBERG

The deal is the latest in the CEO's 14-year quest to transform a traditional European chemicals company into a diversified global health-care player. Over the last five years, Novartis has spent $59 billion on acquisitions to expand its presence in fast-growing areas such as generic drugs and vaccines, according to Bloomberg data. "Vasella recognized relatively early the importance of moving away from a commodity-type pharmaceutical model where one white pill fits all," says Karl Heinz Koch, an analyst at Helvea in Zurich.

**ABOUT 60 MILLION PEOPLE IN CHINA SUFFER FROM CATARACTS—AND ALCON LEADS IN CATARACT SURGICAL SUPPLIES**

Combined sales of Alcon and Novartis eye products in 2008 were about $8.5 billion, one-third of the $26 billion global market for such offerings. Together, their businesses cover about 70% of the kinds of products and services people with impaired vision need.

The deal should help Novartis make up for sales that will be lost to generics. Beginning in 2012, patents on its two best-selling medicines, $5.7 billion hypertension drug Diovan and $3.7 billion cancer treatment Gleevec, will expire. "The Alcon deal is an insurance policy ... that sales and profits remain at these levels," says Luis Correia, an analyst at Clariden Leu in Zurich. "Diovan is a high-margin product, so they had to buy a high-margin business to replace it."

Vasella expects much future growth to come from Asia, where demand for ophthalmic procedures is expected to grow as incomes rise. In China alone, an estimated 60 million people suffer from cataracts—and Alcon is the world's leader in cataract surgical supplies. In 2008, emerging markets made up about $1 billion of Alcon's sales.

The merger brings another benefit: Alcon is less vulnerable to price regulation than Novartis' prescription drug business. That's because a sizeable chunk of its customers pay out-of-pocket for over-the-counter products and procedures such as laser eye surgery. In contrast, sales of prescriptions drugs depend upon the willingness of cost-constrained governments and insurers to pay. "Strategically it makes sense to diversify into other health-care areas to stabilize earnings and reduce the risks," says Koch. |BW|



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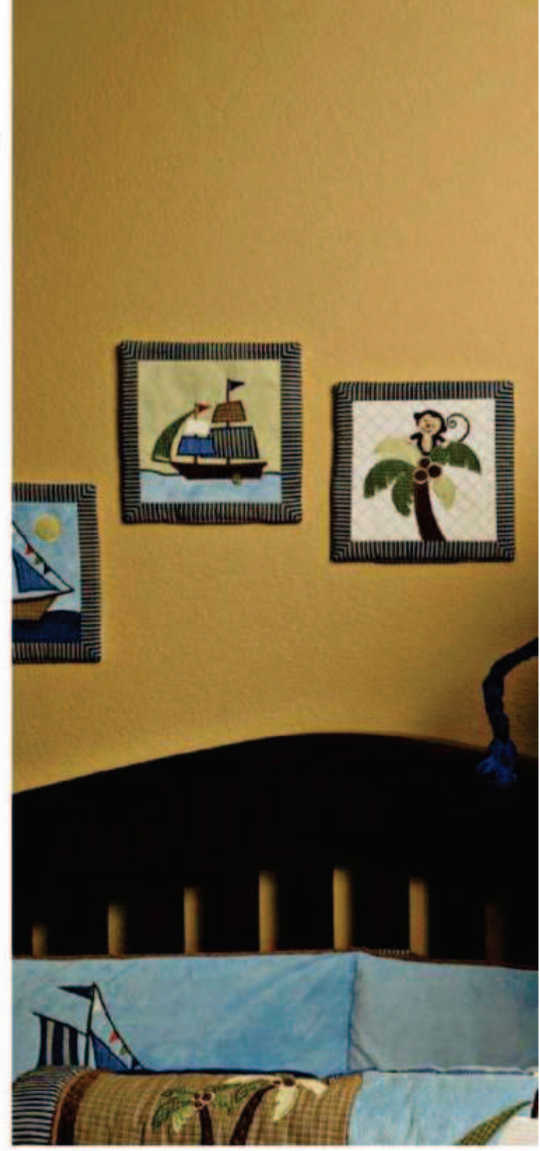

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# Slashing Principal: Lenders' Last Resort

**As foreclosures mount, some banks may finally be forced to deal with the mortgage bombs on their books**



**By John Gittelsohn and Prashant Gopal**

Despite encouragement from policymakers, many banks have moved slowly to aid distressed homeowners. When they do modify mortgages, the fixes—such as interest-rate cuts—often are temporary and only put off the day of reckoning.

With another wave of foreclosures looming as payments on risky loans rise and unemployment remains high, it looks as if banks may be forced to resort to a remedy they've been trying to avoid: principal reductions. Banks don't like principal reductions for obvious reasons. But many economists, policymakers, and homeowners see it another way. While interest-rate reductions or extending loan terms do reduce homeowners' monthly payments, they don't give much comfort to borrowers who owe more on their homes than their properties are worth. Borrowers who don't have a stake in their homes are more likely to hand over the keys when they run into trouble. "The evidence is irrefutable," Laurie Goodman, senior managing director of Amherst Securities Group in New York, testified before the U.S. House Financial Services Committee on Dec. 8. "Negative equity is the most important predictor of default."

The 25% plunge in residential real estate prices from their 2006 peak has left homeowners underwater by $745 billion, according to research firm First American CoreLogic—a number that tops the government's $700 billion bailout for banks. That's why Federal Deposit Insurance Corp. Chairman Sheila Bair is considering incentives for lenders to cut the principal on as much as $45 billion of mortgages acquired from seized banks. "We're looking now at whether we should provide some further loss-sharing for principal writedowns," says Bair.

The foreclosure crisis is likely to deepen this year in part because payments on many adjustable-rate mortgages are set to balloon. Unless there's a sharp recovery in property values or a change in lenders' willingness to cut principal, at least 7 million borrowers currently behind on their payments will lose their homes, estimates Goodman.

**RIGHT-SIZING MORTGAGES**

Some lenders may be coming around, grudgingly, to the idea of principal reduction. "If you can right-size the mortgage and return to an equity situation, the incentive is to stay," says Micah Green, an attorney at Patton Boggs in Washington, D.C., and a lobbyist for a coalition of mortgage bond investors. Banks can either forgive principal outright or defer it. In deferrals the borrower must pay back the full amount on the original mortgage when he sells the property; if the ultimate sales price doesn't cover the principal, the homeowner has to pay the difference, making it a less effective tool.

A principal deferral helped Marcus Beckett stave off foreclosure. The 42-year-old small-business owner couldn't afford his $2,413 monthly mortgage bill after his income dropped and his son, Riley, was born. In October, OneWest Bank agreed to defer $66,000 of the $423,000 debt on his two-bedroom condominium, which he'll have to pay back if he sells his Aliso Viejo (Calif.) home. The monthly tab on the house he bought in 2006 is now $1,314. "It's like I got a second chance on life," Beckett says. "I feel, mentally, I'm able to keep making payments."

**MANY BANKS DON'T WANT WORD TO GET AROUND THAT THEY ARE WILLING TO REDUCE PRINCIPAL FOR TROUBLED BORROWERS**

**Marcus Beckett's monthly payment dropped $1,100 after lenders deferred principal**

While principal reductions remain rare, banks are doing them more often. In the third quarter of 2009, some 21,000 home loans—3% of the total modified mortgages—included a principal reduction or deferral, according to Mortgage Metrics, a government publication. That's up from 6,245 in the first quarter of 2009, the first time the U.S. reported the data.

Banks that negotiate principal reductions have seen positive results. Last year, Wells Fargo cut $2 billion of principal on delinquent loans. After the modifications, the six-month re-



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PHOTOGRAPH BY ETHAN PINES; CHART BY DAVID FOSTER

default rate on those loans was roughly 15% to 20%. That's less than half the industry average. "We are very comfortable with what we've been doing," says Franklin Codel, chief financial officer of the bank's home-lending unit. "We offer a principal reduction if that makes sense for that individual borrower's situation."

Many banks don't want word to get around that they reduce principal. They fear that homeowners who can afford their payments will demand better deals. John Lashley, a 44-year-old salesman in Huntersville, N.C., is making his payments. But he is thinking about walking away from his four-bedroom home unless his lender, Sun Trust Mortgage, agrees to cut the principal on his $345,000 loan. The house next door recently sold for $260,000, and Lashley doesn't see the point of pouring money into his house when he may never recoup the investment he made in 2007. "Why should I stay in my house?" he says. "It's not a moral decision. It's a financial decision."

The conflicting interests of mortgage lenders and home-equity lenders is a big roadblock to doing principal reductions. Banks, credit unions, and thrifts held $951.6 billion in home-equity loans as of Sept. 30, according to Federal Reserve data. Mortgage lenders don't want to cut principal unless the home-equity lenders agree to take a hit. Typically, though, the home-equity lenders are reluctant; much of the value of their loans would be wiped out. That could drive more banks into insolvency, says Joshua Rosner, an analyst at investment research firm Graham Fisher in New York.

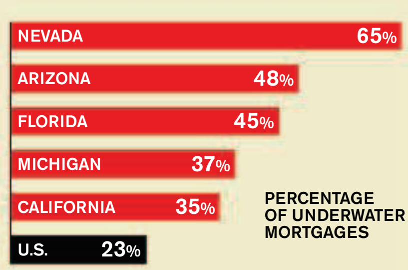
The threat of lawsuits is also hampering principal reductions. In December 2008 money manager Greenwich Financial Services sued lender Countrywide Financial in New York State Supreme Court. Greenwich, which owns mortgage-backed securities, demanded 100¢ on the dollar for some Countrywide investments. The securities included loans on which Countrywide had agreed to cut $8.4 billion in principal and interest to settle allegations of predatory lending. Greenwich Financial's case is pending. Bank of America, which bought Countrywide in 2008, says: "We are confident any attempt to stop this program will be legally unsupportable." Greenwich says it's willing to accept loan changes that benefit borrowers.

So far the feds haven't put pressure on banks to forgive debt. President Barack Obama's $75 billion program to spur banks to alter loan terms doesn't require them to do so. But the FDIC and other regulators are looking at measures to promote the writedowns. Mark Zandi, chief economist for Moody's Economy.com (who has testified before Congress on housing issues), proposes that banks receive a federal match of $1 for every $2 in principal reductions they offer to homeowners who were victims of predatory lending practices. "You're not going to wipe out all the borrowers' negative equity," he says. "This just gives them enough hope to get them committed again." | BW |

*–With Jody Shenn*

## DROWNING HOMEOWNERS

**Many borrowers owe more on their mortgages than the underlying properties are worth**




Data: First American CoreLogic



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IMAX was partly responsible for strong ticket sales for James Cameron's *Avatar*

# Box-Office Supercharger

**Why IMAX's outsize screens are a requirement for any Hollywood studio counting on a big opening weekend**

By Ronald Grover

In Hollywood, bigger is invariably better. So when Twentieth Century Fox was looking to generate buzz for *Avatar*, James Cameron's $380 million space adventure, it enlisted the help of IMAX and its ginormous, ultra-high-definition screens.

Since moving from the science museum to the multiplex a few years ago, IMAX's immersive viewing experience has become *de rigueur* for any Hollywood studio with a big-budget "tent pole" picture on its schedule. Nine of the top 10 movies with the best opening weekend of the last year were shown on IMAX-equipped, as well as regular, theaters. In 2009, U.S. theaters outfitted with IMAX technology showed 14 feature films, vs. eight in 2008. *Avatar* was able to reach nearly $1 billion in ticket sales as quickly as it has in part because it opened on 261 IMAX screens around the world.

Jeffrey Katzenberg is a believer. "What you get from IMAX is the ability to create an old-fashioned event that gets people out of their homes and into a movie theater," says the DreamWorks Animation SKG CEO. In 2008 he agreed to distribute all of his company's upcoming animated films on IMAX.

The appeal is all in the numbers. Theaters charge up to $15 per ticket for an IMAX flick vs. $10 for a regular movie. So though there are only 280 IMAX screens in U.S. cinemas (vs. 39,000 regular screens), they can turbocharge a film's opening-weekend box office and stoke word-of-mouth. DreamWorks has already benefited: Last March, IMAX screens generated 10% of the opening gross for *Monsters vs Aliens*.

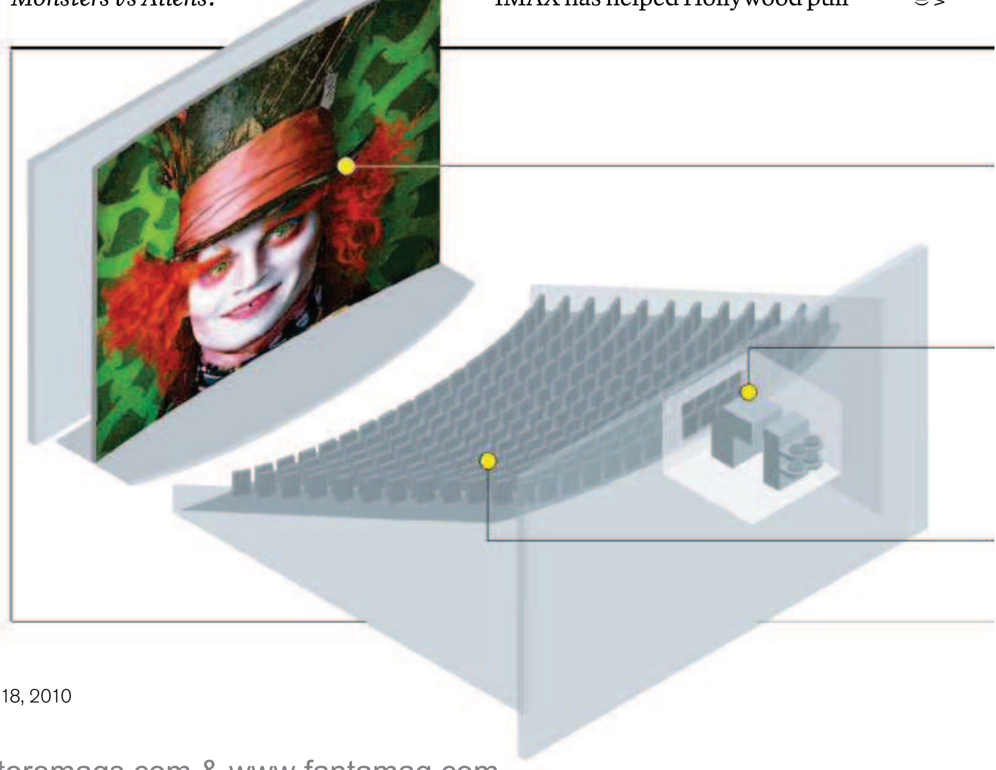
Fox attributes 14% of *Avatar*'s business to 3D IMAX showings.

IMAX attracts 18- to 24-year-old geeks who typically would rather stay home playing video games, according to Paul Dergarabedian, who follows industry trends for Hollywood.com. "They're the ones who drive box office higher," he says. A film that might do $175 million worth of business in the U.S. can easily get to $200 million if it is shown in IMAX, says Piper Jaffray analyst James M. Marsh.

IMAX, looking to rev up its business, began putting its gear in U.S. cinemas in 2003. Under a joint venture with theater chains AMC Entertainment and Regal Entertainment Group, IMAX gets a third of the cinemas' take from ticket and concession sales. In return, IMAX retrofits theaters with large curved screens, ground-trembling sound systems, and digital projectors. It also pays the $1 million fee to convert each flick into its special digital format.

The Mississauga (Ont.) company has signed deals with every studio but Universal. "We've put the wow into the moviegoing experience for them, and they're the ones who are calling us," says CEO Richard Gelfond. The studios, he says, get the added benefit of supersized, high-definition trailers. "People come out wanting to see that studio's next films as well."

IMAX has helped Hollywood pull



(FROM TOP) PHOTOGRAPH BY ROBYN BECK/AFP/GETTY IMAGES; WALT DISNEY PICTURES/ALBUM; INFO GRAPHIC BY DAVID FOSTER/BW



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off a record year: The industry sold $10.6 billion worth of tickets in 2009. IMAX has done well, too. It collects 12.5% of every ticket the studios sell in cinemas equipped with IMAX technology. As a result, IMAX is expected to make money in 2009 for the first time in three years. Hanover Square Research analyst Marla Backer figures IMAX will earn $5.8 million on revenues of $157.1 million, up from $106.2 million in '08. The stock is trading at a 52-week high of 14, up from a low of about 4 in 2009. She credits the turnaround to IMAX's embrace of Hollywood.

IMAX and the studios intend to keep the show going. IMAX will build or retrofit 238 theaters worldwide in the next 12 months, enough to boost its capacity by 50%. Studios are already jostling to get on IMAX screens. This summer, Warner Bros. had to wait two weeks after opening *Harry Potter and the Half-Blood Prince* because IMAX had committed those dates to Paramount Pictures' *Transformers 2: Revenge of the Fallen*. Walt Disney, which has opened several films on IMAX, couldn't find screens for its big animated film, *The Princess and the Frog*.

"As long as IMAX is constrained by the numbers of screens, there's going to be a lot of competition," says Summit Entertainment CEO Rob Friedman, who recently signed on to get an IMAX slot next year for *The Twilight Saga: Eclipse*, the third installment of the vampire blockbuster. |BW|

## IMAX 2.0

IMAX shrank its screen to fit in multiplexes. Typically 30% larger than regular cinema screens, they "immerse" viewers in the movie.

The original projectors used extra-large film that can display more detail than the traditional variety. In 2008, IMAX introduced a smaller digital projector that is better suited to the multiplex—and produces a picture nearly as detailed as the original. The company also developed a 3D version that requires those goofy glasses.

The seats in a traditional IMAX theater are tilted forward slightly to add to the immersive experience. IMAX reconfigured the seats in regular cinemas to achieve a similar effect.

# The Real Value Of Tweets

**Google and Microsoft may be paying Twitter millions, but even they can't tell whether their deals will pay off**

**By Spencer E. Ante**

Google and Microsoft are paying Twitter $25 million to crawl the short posts, or tweets, that users send out on the micro-blogging service. It sounds like big money. Enough for Twitter to turn a small profit in 2009, say two people familiar with the company's finances.

But do the math and the payments look less impressive. Last year, Twitter's 50 million users posted 8 billion tweets, according to research firm Synopsos, which means Google and Microsoft are paying roughly 3¢ for every 1,000 tweets. That's a pittance in the world of online advertising. Top media sites often get $10 or $20 per thousand page views; even remnant inventory, leftover Web pages that get sold through ad networks, goes for 50¢ to $1 per thousand. The deals put "almost no value" on Twitter's data, says Donnovan Andrews, vice-president of strategic development for the digital marketing agency Tribal Fusion.



ILLUSTRATION BY ROBERT NEUBECKER

Truth is, no one has figured out how to make real money off of tweets yet. Google and Microsoft are paying $15 million and $10 million, respectively, as a bet on the future. By laying out what are relatively tiny sums, they get first crack at experimenting with Twitter data. Both are already including tweets in search results. Sean Suchter, general manager of Microsoft's Search Technology Center, predicts the company will end up profiting. "Many times in history when you amass the attention of users, that has proven to be a moneymaking endeavor," he says.

A few entrepreneurs are showing ways to advertise via Twitter. Sean Rad, chief executive of Beverly Hills-based ad network Ad.ly, has signed up 20,000 Twitter users who get paid for placing ads in their tweets. To determine the size of the payments, the startup has developed algorithms that measure a person's influence. Reality TV star Kim Kardashian, with almost 3 million followers, gets $10,000 per tweet, while business blogger Guy Kawasaki fetches $900 per tweet to his 200,000 fans.

For Google and Microsoft, the real payoff may come from tying tweets to local information about products. Twitter is building software that will automatically allow users to add location data to every tweet. Armed with user locations, Microsoft and Google could sell more targeted ads and provide more relevant search results. "That is potentially very useful," says Microsoft's Suchter.

Google isn't focused on making money from its Twitter deal in the near term. Amit Singhal, a Google fellow, says Twitter's data are necessary so that people who use its search engine get more complete information. "I never think about dollars and cents," he says. "My job is to run the best search service."

Twitter and its venture backers, however, need to see the deals pay off. The three-year-old company has said it hopes to go public someday, but it needs a viable business model to live up to its latest $1 billion valuation. It'll take a long time to get there at 3¢ per thousand tweets. |BW|



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# THE DISPOSABLE WORKER

By Peter Coy, Michelle Conlin, and Moira Herbst

Illustration by Brian Stauffer

**Pay is falling, benefits are vanishing, and no one's job is secure. How companies are making the era of the temp more than temporary**

On a recent Tuesday morning, single mom Tammy DePew Smith woke up in her tidy Florida townhouse in time to shuttle her oldest daughter, a high school freshman, to the 6:11 a.m. bus. At 6:40 she was at the desk in her bedroom, starting her first shift of the day with LiveOps, a Santa Clara (Calif.) provider of call-center workers for everyone from Eastman Kodak and Pizza Hut to infomercial behemoth Tristar Products. She's paid by the minute—25¢—but only for the time she's actually on the phone with customers.

By 7:40, Smith had grossed $15. But there wasn't much time to reflect on her early morning productivity; the next child had to be roused from bed, fed, and put onto the school bus. Somehow she managed to squeeze three more shifts into her day, pausing only to homeschool her 7-year-old son, make dinner, and do the bedtime routine. "I tell my kids, unless somebody is bleeding or dying, don't mess with me."

As an independent agent, Smith has no health insurance, no retirement benefits, no sick days, no vacation, no severance, and no access to unemployment insurance. But in recession-ravaged Ormond Beach, she's considered lucky. She has had more or less steady work since she signed on with LiveOps in October 2006. "LiveOps was a lifesaver for me," she says.

You know American workers are in bad shape when a low-paying, no-benefits job is considered a sweet deal. Their situation isn't likely to improve soon; some economists predict it will be years, not months, before employees regain any sem-



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blance of bargaining power. That's because this recession's unusual ferocity has accelerated trends—including offshoring, automation, the decline of labor unions' influence, new management techniques, and regulatory changes—that already had been eroding workers' economic standing.

The forecast for the next five to 10 years: more of the same, with paltry pay gains, worsening working conditions, and little job security. Right on up to the C-suite, more jobs will be freelance and temporary, and even seemingly permanent positions will be at greater risk. "When I hear people talk about temp vs. permanent jobs, I laugh," says Barry Asin, chief analyst at the Los Altos (Calif.) labor-analysis firm Staffing Industry Analysts. "The idea that any job is permanent has been well proven not to be true." As Kelly Services CEO Carl Camden puts it: "We're all temps now."

Peter Cappelli, director of the Center for Human Resources at the University of Pennsylvania's Wharton School, says the brutal recession has prompted more companies to create just-in-time labor forces that can be turned on and off like a spigot. "Employers are trying to get rid of all fixed costs," Cappelli says. "First they did it with employment benefits. Now they're doing it with the jobs themselves. Everything is variable." That means companies hold all the power, and "all the risks are pushed on to employees."

The era of the disposable worker has big implications both for employees and employers. For workers, research shows that chronic unemployment and underemployment cause lasting damage: Older people who lose jobs are often forced into premature retirement, while the careers of younger people are stunted by their early detachment from the working world. Even 15 years out of school, people who graduated from college in a recession earn 2.5% less than if they had graduated in more prosperous times, research has shown.

Diminishing job security is also widening the gap between the highest- and lowest-paid workers. At the top, people with sought-after skills can earn more by jumping from assignment to assignment than they can by sticking with one company. But for the least educated, who have no special skills to sell, the new deal for labor offers nothing but downside.

Employers prize flexibility, of course. But if they aren't careful they can wind up with an alienated, dispirited workforce. A Conference Board survey released on Jan. 5 found that only 45% of workers surveyed were satisfied with their jobs, the lowest in 22 years of polling. Poor morale can devastate performance. After making deep staff cuts following the subprime implosion, UBS, Credit Suisse, and American Express hired Harvard psychology lecturer Shawn Achor to train their remaining employees in positive thinking. Says Achor: "All the employees had just stopped working."

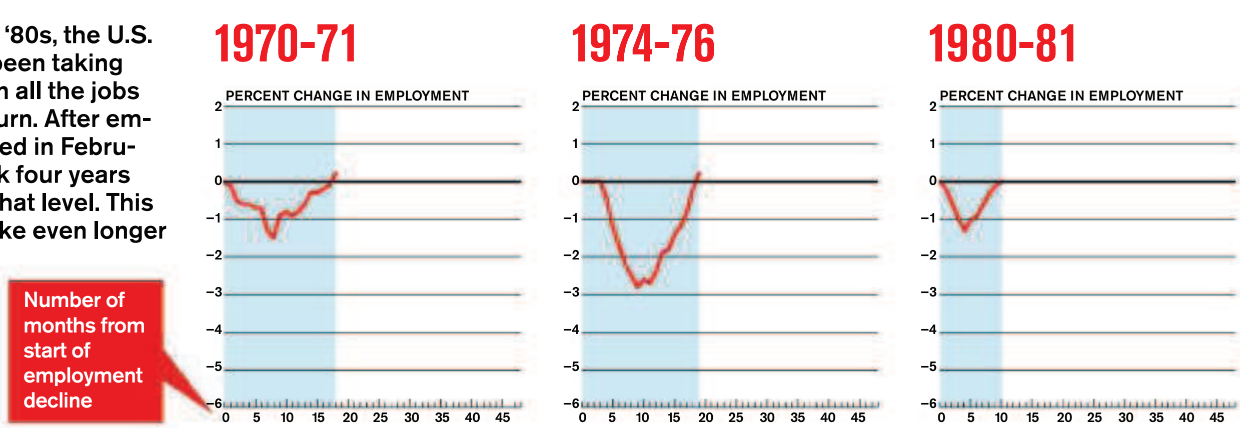
In a typical downturn, the percentage decline in payrolls is about the same as the percentage decline in gross domestic product. But in the recessions that began in 2001 and 2007, the decline for payrolls was much steeper—1.8 percentage


Smith, with her 7-year-old son, earns 25¢ for each minute she is on a call

# DEEP DECLINE. SLOW RECOVERY?

**Since the early '80s, the U.S. economy has been taking longer to regain all the jobs lost in a downturn. After employment peaked in February 2001, it took four years to get back to that level. This time it could take even longer because employment is off 5% from its December 2007 high.**

Data: Bureau of Labor Statistics






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BEN VAN HOOK

points more during the latest downturn. Worse yet, only about 10% of the layoffs are considered temporary, vs. 20% in the recession of the early 1980s.

**PERMA-TEMPS**

All that cutting has been good for corporate profits. Earnings rebounded smartly as companies kept payrolls down after the 2001 recession; by 2006 profits had hit a 40-year high as a share of national income, at 10.2%, according to Bureau of Economic Analysis data. The credit bust sent that figure plunging to 5.6% during the final quarter of 2008. But over the past year corporate profits' share has rebounded to 7.4% of national income, equaling the 40-year average.

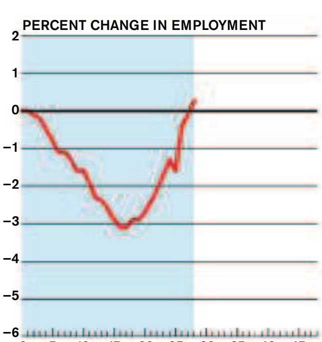
The trend toward a perma-temp world has been developing for years. Bosses are no longer rewarded based on how many people they supervise, so they have less incentive to hang on to staff. Instead, the increasing use of bonuses tied to short-term profit performance gives managers an incentive to slash labor costs. The Iowa Policy Project, a nonpartisan think tank, estimates that 26% of the U.S. workforce had jobs in 2005 that were in one way or another "nonstandard." That includes independent contractors, temps, part-timers, and freelancers. Of those, 73% had no access to a retirement plan from their employer and 61% had no health insurance from their employer, the Iowa group said.

Temp employment in the U.S. fluctuates wildly, by design. The whole purpose of bringing on workers who are employed by temporary staffing firms such as Manpower, Adecco, and Kelly Services is that they're easy to shuck off when unneeded. While the number of temps fell sharply during the recent recession, the ranks of involuntary part-timers soared. The tally of Americans working part-time for economic reasons—that is, because full-time work is unavailable—has doubled since the recession began, to 9.2 million.

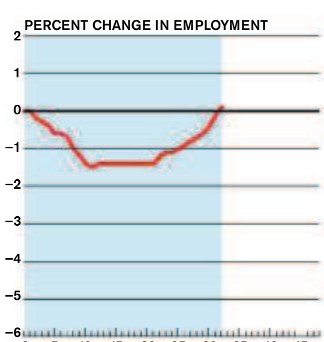
Companies that seized on the recession as an opportunity to make drastic organizational changes for greater efficiency and flexibility aren't likely to reverse those changes once the economy begins growing again, says David H. Autor, a labor economist at Massachusetts Institute of Technology. In other words, most of the jobs shipped to China will stay in China. And companies that turned labor into a just-in-time, flexible factor of production won't return to an old-fashioned job-for-life arrangement. "For the last 10 years, I and others have been saying that these trends aren't just for a fringe workforce but increasingly are for the mainstream," says Sara Horowitz, founder and executive director of the Freelancers Union, a 130,000-member advocacy group for contract workers. "This recession has shown us that the future is here."

Boeing typifies the companies that are taking advantage of flexibility. In 2009, it cut 1,500 contingent workers from its commercial division. Says spokesman Jim Proulx: "The first imperative was to reduce all of the contract and contingent labor that we possibly could to shield our regular employees from those layoffs." Boeing says less than 3% of its workforce is contingent. It has also reduced its dependence on costly permanent staff in the U.S. by making new hires abroad. Last

**1981-83**



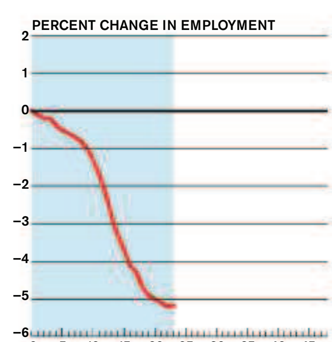

**1990-93**




**2001-05**




**2007-**






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## THE FLEXIBLE LABOR FORCE

By one broad measure, about 26% of working Americans have "nonstandard" jobs

| CATEGORY OF WORKER | PERCENTAGE OF WORKFORCE |
|---|---|
| People who work fewer than 35 hours a week for a particular employer | 13.2 |
| Independent contractors (e.g., maids, real estate agents, management consultants) | 7.4 |
| Temps hired directly, not through an agency | 2.1 |
| On-call workers/day laborers | 2.0 |
| Temps employed by agencies | 0.9 |
| Employees of contractors, such as landscaping or programming services | 0.6 |

Data: Iowa Policy Project and Government Accountability Office, based on 2005 data from Bureau of Labor Statistics

March it announced a research and development center in Bangalore that will "coordinate the work of more than 1,500 technologists, including 100 advanced technology researchers, from across India." Bill Dugovich, a spokesman for Boeing's white-collar union in the U.S., the SPEEA, complains that the Indian workers "are basically contract labor."

For years Microsoft has been an avid user of temporary-staffing firms such as Volt Information Sciences for a variety of short-term projects, including writing chunks of software, says Microsoft spokesman Lou Gellos. "Our contingent workforce fluctuates wildly depending on the different projects that are going on," Gellos says. "Somebody does just part of a project. They're experts in it. Boom, boom, they're finished." Temps are especially appealing to companies in cyclical industries. "We have been able to get really good talent. Off the charts," says Jeff Barrett, CEO of Eggrock, a manufacturer of pre-built bathrooms based in Littleton, Mass. It has brought on dozens of plumbers, electricians, and administrative workers through Manpower to handle a spike in orders.

With the economy expanding again, and employers loath to add permanent workers, temp employment is one of the few sectors of the labor market that is growing rapidly. Stock prices for the big temp firms have doubled since last March, while analysts surveyed by Bloomberg expect profits to double in 2010 at Robert Half International and to jump about 50% at Manpower. LiveOps is among the biggest beneficiaries of the just-in-time labor trend; its revenues grew by a double-digit percentage in 2009 and the company is planning an initial public offering. "We want to do for the world of work what eBay did for commerce," says LiveOps CEO Maynard Webb, a former chief operating officer of eBay. "You have access to the talent you need. And when the need is gone, the talent goes away."

### "LEADERSHIP ON DEMAND"

The world of temporary work used to be the domain of sneaker-footed admins. No longer. Last year, Kelly Services placed more than 100 people—including lawyers and scientists—in interim stints that paid more than $250,000 a year. At the forefront of the "leadership on demand" movement in the U.S. is the Business Talent Group, whose roster of 1,000 executives has done jobs at companies like mobile-phone content provider Fox Mobile, health-care company Healthways, and private equity firm Carlyle Group. BTG says its client demand rose 50% in 2009.

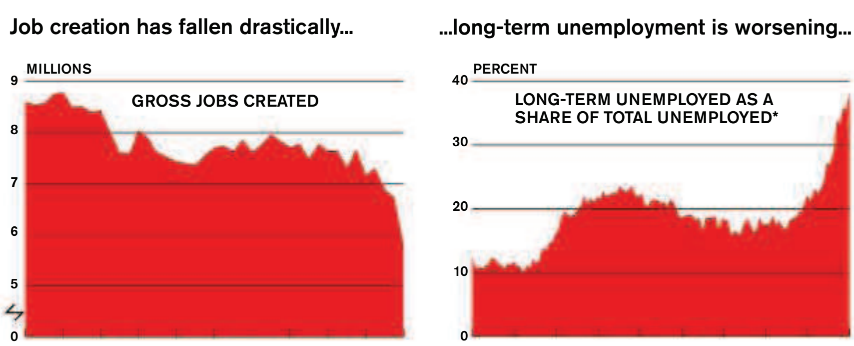
Sydney Reiner, of Southern California, has had five assignments in five years as an interim chief marketing officer at companies like Coffee Bean & Tea Leaf and Godiva Chocolatier. "I got a call from Godiva on a Wednesday asking if I could be on a plane to Japan on Saturday," says Reiner. "I was." For the past two months, she's been the interim chief marketing officer at beverage maker POM Wonderful. Reiner prefers the challenge of working in short, adrenaline-packed chunks. But like Smith, the University of Chicago MBA has no access to employer-sponsored health insurance and other benefits. Says Reiner: "To some extent I end up working as hard as a permanent employee, without a lot of the benefits."

Reiner relishes the flexibility of the free-agent lifestyle. While there are others like her, many upscale, white-collar workers aren't contingent laborers by choice. Matthew Bradford, who is 38 and married with three young children, could scarcely believe it when he was laid off in early 2009 by a national law firm in Cleveland. He eventually set up as a one-man "legal professional association" in Akron, handling overflow from other lawyers while he slowly builds up his own practice. Meanwhile he's responsible for his own health insurance and a share of office overhead, things he never considered when he was on track to making partner back in Cleveland. "I never would have thought this would have happened," says Bradford. "I thought, 'Hey, I've got a law degree and an MBA. I'm not going to be out of work.' It's just not the case anymore."

During the boom-time 1990s, employers sold the move

THOMAS MICHAEL ALLEMAN/WONDERFUL MACHINE

## LABOR PAINS




Data: Bureau of Labor Statistics



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Reiner has been a temp exec at five companies in five years

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Bradford thought his law degree and MBA bought him job security

MICHAEL NEMETH/WONDERFUL MACHINE

away from secure full-time jobs as pure upside for workers—a step toward greater flexibility and freedom. To compete with dot-coms, corporations like IBM started replacing some fixed pay with variable compensation: stock options, bonuses, and other cash incentives that have to be renegotiated each year. It was attractive for awhile, but the Great Recession is showing workers the downside of that deal. Employers' unspoken message to employees, says Cornell University labor economist Kevin F. Hallock, is this: "You can absorb more risk, or you're going to lose your job. Which would you prefer?"

At the bottom of the ladder, workers are so powerless that simply getting the minimum wage they're entitled to can be a struggle. A study released in September and financed by the Ford, Joyce, Haynes, and Russell Sage Foundations found that low-wage workers are routinely denied proper overtime pay and are often paid less than the minimum wage. It followed a Government Accountability Office report from March 2009 that found that poor oversight by the Labor Dept.'s Wage & Hour Div. leaves low-wage workers "vulnerable to wage theft." Some companies have been fined for misclassifying employees as freelancers and then denying them benefits. Meanwhile, the George W. Bush Administration made it easier for people earning as little as $23,600 a year not to be covered by overtime-pay rules.

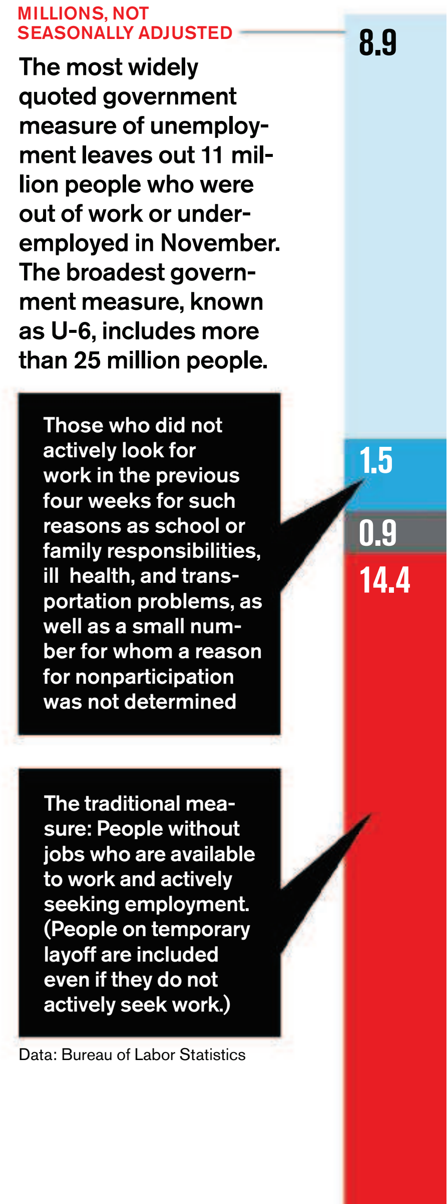
Workers hired for temporary or contract work face a higher risk of developing mental health problems like depression, according to research presented in 2009 by Amélie Quesnel-Vallée of McGill University. A lack of job security and health-care benefits, as well as social ties to the rest of the workforce, increase stress levels for temps and contractors. A survey conducted in September by the National Alliance on Mental Illness found that people who experienced a forced change in their employment during the last year were twice as likely to report symptoms consistent with severe mental illness as individuals who hadn't experienced one.

The situation is especially difficult for young people, many of whom haven't been able to get a first foot on the career ladder. The percentage of people 16 to 24 who have jobs has plummeted by 13 percentage points since the beginning of 2000, while the share of workers 55 and over who have jobs has edged up over the period, despite the recession. Some young people are so desperate to get a start, they're working for free as semi-permanent interns. "Companies that used to use only one or two interns are now asking me for five or six at a time," says Lauren Berger, who runs a company that matches interns with entertainment, marketing, and media companies. Berger also reports a rise in the number of "adult interns," who work for free while trying to break into a new career.

Those internships might look like plum spots in years to come, for the gloomy trends in the labor market show no sign of abating. Consider some statistics. In the 2001 recession cycle, the economy lost 2% of its jobs and took four years to get them back (charts, pages 32-33). This time it has lost more than 5% of its jobs. Even after the recession is history, employers are likely to continue to offshore and automate jobs out of existence. If they don't, they'll lose out to competitors that do. In a November update of previous research, Princeton University economist Alan S. Blinder estimated that 22% to 29% of all U.S. jobs will be offshorable within two decades. Of course, even working in a job that's not offshorable—say, landscaping—is no guarantee of job security or decent pay. That's because people in those jobs must compete with the millions of former factory workers and such whose jobs have already been offshored, notes Josh Bivens, an economist at the Economic Policy Institute in Washington.

IBM may strike many people as the quintessential American company, but 71% of its workforce was outside the U.S. at the end of 2008, a figure even higher than the

## UNEMPLOYED AND UNCOUNTED




Data: Bureau of Labor Statistics

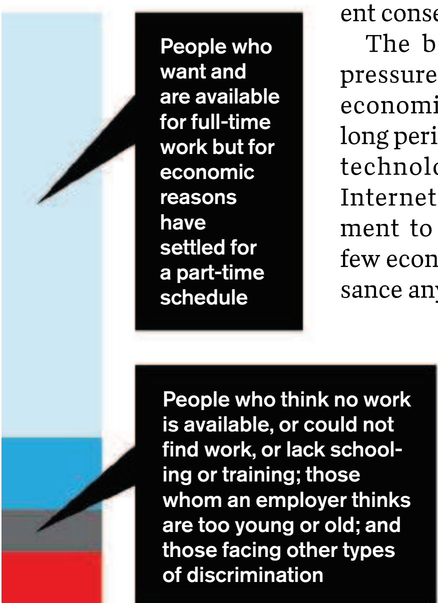


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non-U.S. share of its revenue (65%). In 2009 the company reduced its U.S. employment by about 10,000, or 8%. It also announced a program offering certain employees the opportunity to move their jobs to emerging markets; in turn, the company will foot some of the relocation costs.

**PAY CUTS**

When employment in the U.S. eventually recovers, it's likely to be because American workers swallow hard and accept lower pay. That has been the pattern for decades now: Shockingly, pay for production and nonsupervisory workers—80% of the private workforce—is 9% lower than it was in 1973, adjusted for inflation. Sure, back in the 1950s pillars of the economy such as General Motors paid generously, because they could. Contracts between GM and the United Auto Workers set a pattern for pay throughout the economy, says Harley Shaiken, a professor at the University of California at Berkeley who specializes in labor issues. But while unions covered 36% of private-sector workers in 1953, the figure plunged to less than 8% by 2008. "Today, working conditions are set either by trends in the global economy or by nonunion firms in the U.S.," says Shaiken. He points out that while GM was the largest U.S. employer in the 1950s, "today that role is played by Wal-Mart, with very different consequences."




The best solution to relieve the pressure on workers would be rapid economic growth sustained over a long period, possibly enabled by some technological breakthrough. The Internet boom pushed unemployment to less than 4% in 2000. But few economists expect such a renaissance anytime soon. That's why labor unions and politically liberal economists argue for New Dealesque public jobs programs and against free-trade pacts like the North American Free Trade Agreement. In 2007, Ralph E. Gomory, former head of IBM's research department and later a senior vice-president at the company, declared before a U.S. House panel: "In this new era of globalization the interests of companies and countries have diverged. In contrast with the past, what is good for America's global corporations is no longer necessarily good for the American people."

Conservative economists, in contrast, say the real problem is too much government intervention in the economy. Employers who might be adding jobs are frozen in place by uncertainty over the impact of pending legislation on health care, global warming, and other big-ticket items, says economist Steven J. Davis of the University of Chicago's Booth School of Business. "I can't think of another time during my professional lifetime when there was so much riding on policy decisions that could get made in the next year or two."

For a glimpse of where things might be headed in the U.S., look at Europe, which makes a lot more use of temporary and part-time workers than U.S. employers do. That's in large part because of Europe's famously rigid labor laws; rather than hiring permanent workers, employers turn to temps and contractors who can be let go more easily during a downturn. In Spain, 85% of recent job losses in this recession were by temps or contractors. One big difference: Most European countries cover temps and part-timers with government health insurance and require that they receive wages and benefits comparable to those for permanent employees doing similar work.

Look far enough into the future and it's possible to see better times ahead for labor. A decade from now the retirement of the baby boom generation could cause labor shortages and hand some bargaining power back to younger workers, says Robert Mellman, a senior economist at JPMorgan Chase Bank. If that happens, woe unto employers. A survey in 2009 by the benefits consultant now known as Towers Watson found that top-performing employees will be ready to jump ship as soon as a better offer comes along. Says Wharton's Cappelli: "The idea of loyalty—'I will stick with you and you will reward me'—that is effectively gone."

But those are issues for another day. Right now the face of American labor is more like that of Jamila Godfrey, 35, of Seattle. A licensed naturopathic physician, she ran an alternative medicine practice but decided to scoop up another degree, this time in nursing, for greater job security. Though she graduated in June, and health care is the strongest sector in the economy, she hasn't been able to find a job because hospitals can't spare the money for three months of on-the-job training. To support herself and her 12-year-old daughter, the single mother has been working as a temp for the past several months, but that project ends in several weeks. "I'll be jobless again," says Godfrey. "I thought the [RN] qualification would make it easy to find a job, but it's not working out that way." | BW |

*—With Carol Matlack in Paris*

**Business Exchange**

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**Census Gigs Are Going Fast**

A decade ago in Minnesota, when the economy was strong, the U.S. Census Bureau had to recruit at high schools and jack up pay to recruit enough temporary workers to conduct the decennial population count. For this April's count, the agency is already halfway to filling its quota of applicants, even though it has done little recruiting and Minnesota has a below-average unemployment rate, says a Jan. 4 article in the Minneapolis *Star Tribune*.

To read the *Star Tribune* story, go to **http://bx.businessweek.com/corporate-layoffs/reference/**



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By Catherine Arnst

Photography
by Brian Smale

# RADICAL SURGERY

**A hospital that slashes costs—and delivers high-quality care as it innovates? Yes, it exists**

Walk into most hospitals, and you'll see patients scattered about the halls on gurneys or wheelchairs. They're waiting to be moved from intensive care to a standard ward, or to an X-ray room, or to physical therapy. Each journey adds to the patient's discomfort and increases the risk of infections and other complications. Tally up a single patient's migrations over 24 hours, and they may consume as much as half a day of staff time.

Walk into Providence Regional Medical Center, in Everett, Wash., and you will see a hospital trying something different: It brings the equipment to the patient. In 2003, Providence opened one of the few "single stay" wards in the nation. After heart surgery, cardiac patients remain in one room throughout their recovery; only the gear and staff are in motion. As the patient's condition stabilizes, the beeping machines of intensive care are removed and physical therapy equipment is added. Testing gear is wheeled to the patient, not the other way around. Patient satisfaction with the "single stay" ward has soared, and the average length of a hospital stay has dropped by a day or more.

This is just one of many changes—some radical, many quite small—that have enabled Providence Regional to join a special subset of American hospitals: those that do not lose money on Medicare patients.

Almost 60% of U.S. hospitals report losing 20¢ on the dollar for every elderly patient that comes through their doors. They make up the difference by charging the under-65s a far higher fee. But Providence breaks even on the elderly, even though Medicare pays about $1,000 less per enrollee in the hospital's region than the national average. The hospital accomplishes this feat while winning a doctor's satchel full of national awards for top-notch care, placing it among the elite 5% of all U.S. hospitals.

High quality at a low price. Every other industry strives for that combination, but a hospital that does both is all too



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Brevig found that reduced blood transfusions during surgery curbed infections

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rare. Providence and its cost-efficient brethren demonstrate that quality care can be delivered at an affordable price, provided hospitals can be persuaded to rethink decades-old practices.

The crazy world of hospital economics does not offer a lot of incentives to change. Both Medicare and private insurers reimburse on a piecework basis—known as fee-for-service—that encourages hospitals to treat more, prescribe more, and test more. Economists refer to this arrangement as a "value-blind" payment system since no premium is paid for quality.

Consequently, hospitals have no financial motivation to invest in productivity-enhancing computer technology, management experts, or efficiency research—and by and large, they don't. Columbia University economist Frank Lichtenberg calculates that productivity growth for the hospital industry has increased at less than half the rate of the general economy.

There are no proposals in either the House or Senate reform bill to scrap the fee-for-service system. As a result, the Congressional Budget Office expects the legislation to do little to halt the medical inflation that has pushed health-care spending to 16.2% of the gross domestic product. Because hospitals are among the largest employers in many congressional districts, their political clout protects them from reforms that would cause any real financial pain.

But even under a value-blind system, there are ways to "bend the cost curve," an oft-stated goal of President Barack Obama. The nonprofit Institute for Healthcare Improvement last year identified 70 regions around the country, out of a total of 306, where high-quality care is delivered at a reasonable cost. One of those regions is Everett, home of Providence Regional.



**HOSPITALS DON'T NEED TO BE EFFICIENT BECAUSE THEY CAN MAKE UP FOR MEDICARE LOSSES BY CHARGING PRIVATE INSURERS MORE**

Providence is the only hospital in this coastal city of 98,000 people located 20 miles north of Seattle. It is the third-largest hospital in Washington, with two campuses serving 25,000 overnight patients a year, and operates the second-busiest emergency room in the state. It's building a $500 million, 368-bed tower, due to open next year, that will double its capacity.

What sets Providence apart from its peers is not size or location but its ability to operate within a Medicare-designated budget. The majority of U.S. hospitals have the market power to demand higher reimbursements from private insurers to make up for what they see as insufficient payments by Medicare. Because of a wave of consolidation in the 1990s, when more than 900 hospitals merged (including the two medical centers that created Providence Regional), some 90% of the U.S. population that lives in metropolitan areas is now served by just one or two hospital networks. "Hospitals simply don't need to be efficient," says Dr. Robert A. Berenson, a leading health-care economist and member of MedPAC, an independent agency that advises Congress on Medicare. "They are able to get payment differentials from the private sector of 30% to 35% over what Medicare pays." In some markets, it's 50% to 100%, he says.

Providence doesn't have enough private payers to engage in such fee-shifting. Forty percent of its annual revenues come from Medicare, and an additional 13% from Medicaid. Commercial insurers account for only 39%. Dependence on Medicare has forced it to focus on taking costs out of its operation rather than maximizing revenues.

To get those savings, the hospital tries to standardize best



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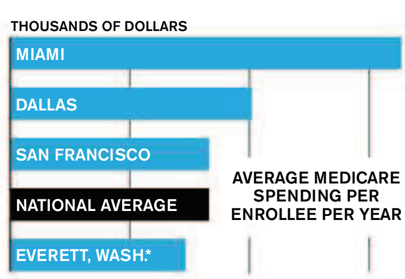


Under Brooks, Providence has revamped long-accepted regimens

practices whenever possible. "There is a tremendous variation in medical delivery that is not quality driven," complains Dr. James Brevig, director of cardiac surgery at Providence. Doctors and nurses are often reluctant to analyze and change their methods because it would mean revamping long-accepted treatments or routines. As a result, says Brevig, "there are no standards in hospitals. Why is that? It's crazy. No other industry is like this."

Providence took a different path after picketing by workers nine years ago reflected a shattered morale. A new administration decided to attack the internal staff divisions and foster collaboration among doctors, nurses, and administrators. Everyone is encouraged to contribute ideas on driving down costs and improving patient outcomes. "I'm eligible for retirement, and under the prior leadership I would have left," says pediatric nurse Kathy Elder, a 34-year veteran of Providence. "They were very hierarchical, very closed. There was a lack of trust all around."

## KEEPING A LID ON HOSPITAL COSTS




*Home of Providence Regional
Data: Dartmouth Atlas, 2006 Figures

The current CEO, 48-year-old David T. Brooks, a fast-talking Detroit native, took over two years ago. He says the administration is open to suggestions from any and all staffers. "We have scorecards for everything around here, which measure both quality and efficiency. If all we had were great clinical outcomes but costs kept rising, that just wouldn't be good enough."

The staff embraced the challenge to innovate. The nursing team came up with the idea of checking on patients every two hours without waiting for a call button, to see if they need help walking to the bathroom or moving about their rooms. Ten percent of fatal falls by the elderly in the U.S. occur in hospitals. This one change at Providence reduced falls by 25%, according to chief nursing officer Kim Williams. "We believe we'll see more improvement over the next six months."

### CONTROVERSIAL PRACTITIONERS

One of the bigger changes at Providence, implemented in 2003, is to place the day-to-day care of almost all its inpatients in the hands of hospitalists, a new type of doctor that has emerged in the last decade. Unlike primary care physicians, who usually visit their patients only early in the morning or late at night, hospitalists are available around the clock, checking that medications are administered properly, chart orders followed, and infection risks minimized. About 37% of Medicare inpatients are attended by hospitalists nationwide, and several studies have associated their use with better outcomes. Providence has also published data showing that infections, lengths of stay, and surgical complications have dropped since starting its own program.

But hospitalists are still controversial in many communities, because primary care physicians are wary of giving up control of their patients, along with their share of inpatient fees. Dr. Joanne C. Roberts, one of the first hospitalists at Providence, has not seen this conflict in Everett, possibly because most of the hospitalists and primary care doctors are associates at one large medical practice, Everett Clinic. That's not true everywhere, she says. "In another community where I worked, independent doctors were pretty hostile. Everyone was trying to grab part of the money. That just doesn't happen here."

The lack of hostility could be because Washington attracts people who appreciate the region's quality of life. The ocean on one side of Everett and the Cascade Mountains on the other are their own kind of bonus. "It helps that most doctors don't move to the Seattle area just to get rich," says Dr. William M. Wisbeck, a radiation oncologist at Providence.

It also helps that Providence has no competition nearby. "We don't have to engage in a medical arms race," says Dr. Lawrence M. Schecter, chief medical officer. Instead, a 20-member Value Analysis Committee consisting of doctors, nurses, and administrators scrutinizes every



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# BRINGING TREATMENT TO THE PATIENT

**Providence Regional's "single stay" ward is designed to keep patient moves at a minimum.**



A typical room includes a bed, a chair the patient will use while recovering from heart surgery, and critical-care equipment.



Staffers remove the bed to fetch the patient from the OR. All the post-heart-surgery equipment comes in with the patient.

proposal for a major equipment purchase to determine if it is warranted in terms of patient need, rather than to keep up with the competition or to increase billings.

Providence's savings efforts don't stop at the hospital doors. It offers financial training courses to the 800 independent doctors affiliated with the hospital in an effort to get them thinking about cost efficiencies. That's no easy task, however, since savings don't necessarily flow into their pockets. Cutting back on unnecessary services may be better for the bill payer, but it lowers the income of doctors and hospitals.

Thus there is no national rush to imitate Providence's strategies. The Centers for Medicaid & Medicare Services, which administers Medicare, tries to encourage fiscal restraint through its reimbursement rates, but hospitals consistently argue that these rates are too low. MedPAC estimates seem to support this position—it calculates that hospital Medicare margins were -7.2% in 2009. But overall operating margins are far more robust. Thanks to income from private insurers, the nation's 5,000 nonprofit hospitals had a median operating margin of 8.4% in the second quarter of 2009, according to a Thomson Reuters analysis. Health insurers, by comparison, had a median margin of less than 4%.

Brooks says Providence's 2009 operating margins were 6%, despite its heavy dependence on Medicare. Reaching that level is a challenge. As the only major hospital in a fast-growing county, Providence must provide every kind of medical service. Thus its lucrative cardiology unit and high-tech cancer centers are offset by an obstetrics ward that delivers 4,000 babies a year. The hospital loses money on almost every one of those births. Providence also has to absorb some $16 million in unpaid bills each year, more than any other Washington hospital except a pubic facility in Seattle.

Charity care fulfills a moral mission at Providence that sometimes trumps economics. The hospital is owned by the Sisters of Providence, a Canadian order of Catholic nuns founded in 1843 to minister to the poor. "Everything we do has to uphold our core values," says Brooks. "Our mission doesn't end with our business goals."

**DOING PENANCE**

But business goals and social mandates do sometimes align. To make life easier for dying patients, Providence opened a hospice in 2003 that offers palliative treatments. Patients tend to express relief when offered the option of hospice over hospital care, says Dr. Roberts, the hospitalist who helped start the program. She recalls one day last fall when the palliative care staff was asked to consult on two patients who, between them, had been admitted 35 times to the hospital within 12 months. "As a result of calm discussions with patients and families regarding their goals for their own care and future, both were referred to hospice," she says. Roberts estimates that Medicare saves an average of $3,120 on patients who choose hospice over drastic interventions.

Providence also seeks to soften contentious encounters among doctors and patients by doing penance for errors. The hospital set up an independent panel to investigate medical mistakes, disclose its findings to the patient, and voluntarily offer a financial award if warranted. As a result, Providence



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The room stands ready to receive monitoring devices, physical therapy machines, and whatever else might be required.



The open-heart patient arrives from the OR with a team of nurses, a respiratory therapist, and an array of critical gear.

has only two malpractice suits pending, compared with an average of 12 to 14 at other hospitals of similar size.

When Providence can't find standard medical practices, it innovates. That was the case with blood transfusions. Cardiac and orthopedic surgeons realized a few years ago that there was no widely accepted data on the optimal amount of blood to give patients during surgery, despite the $240 cost per bag. Dr. Brevig started looking around and found several studies that correlated greater transfusion volumes with longer patient stays and higher infection rates.

He was particularly surprised that transfusion rates varied greatly from hospital to hospital, regardless of the patient's status. "The variations were related to the culture of the hospital, not the decisions of the doctor," he says. Brevig set out to create a low-transfusion culture at Providence. He got surgeons to slow down because speedy operations cause more blood loss. Settings were changed on heart bypass machines to save blood, and the hospital hired a blood conservation coordinator. In a study of 2,531 operations at Providence, Brevig reported that the incidence of transfusions was reduced to just 18% in 2007, from 43% in 2003, while the average patient stay was reduced by half a day. The changes have saved Providence an estimated $4.5 million.

Brevig has been proselytizing for his plasma practices at medical meetings, but to little avail. Only some 200 U.S. hospitals have a blood conservation program. Since patients are billed the cost of the plasma, doctors aren't motivated to change their habits.

There is also the fear that cutbacks on services will lead to accusations of rationing. Dr. Donald Berwick, president of the Institute for Healthcare Improvement and a longtime campaigner for better, safer hospitals, says this attitude must be revamped. In a recent speech he called on hospitals to reduce costs by 10% over the next three years without harming care. In almost every case, he noted, fewer interventions and adherence to standards lead to better medical outcomes. "Doctors and patients alike need to realize that the best health care is the very least health care that we need," he said. "The best hospital bed is empty, not full." | BW |

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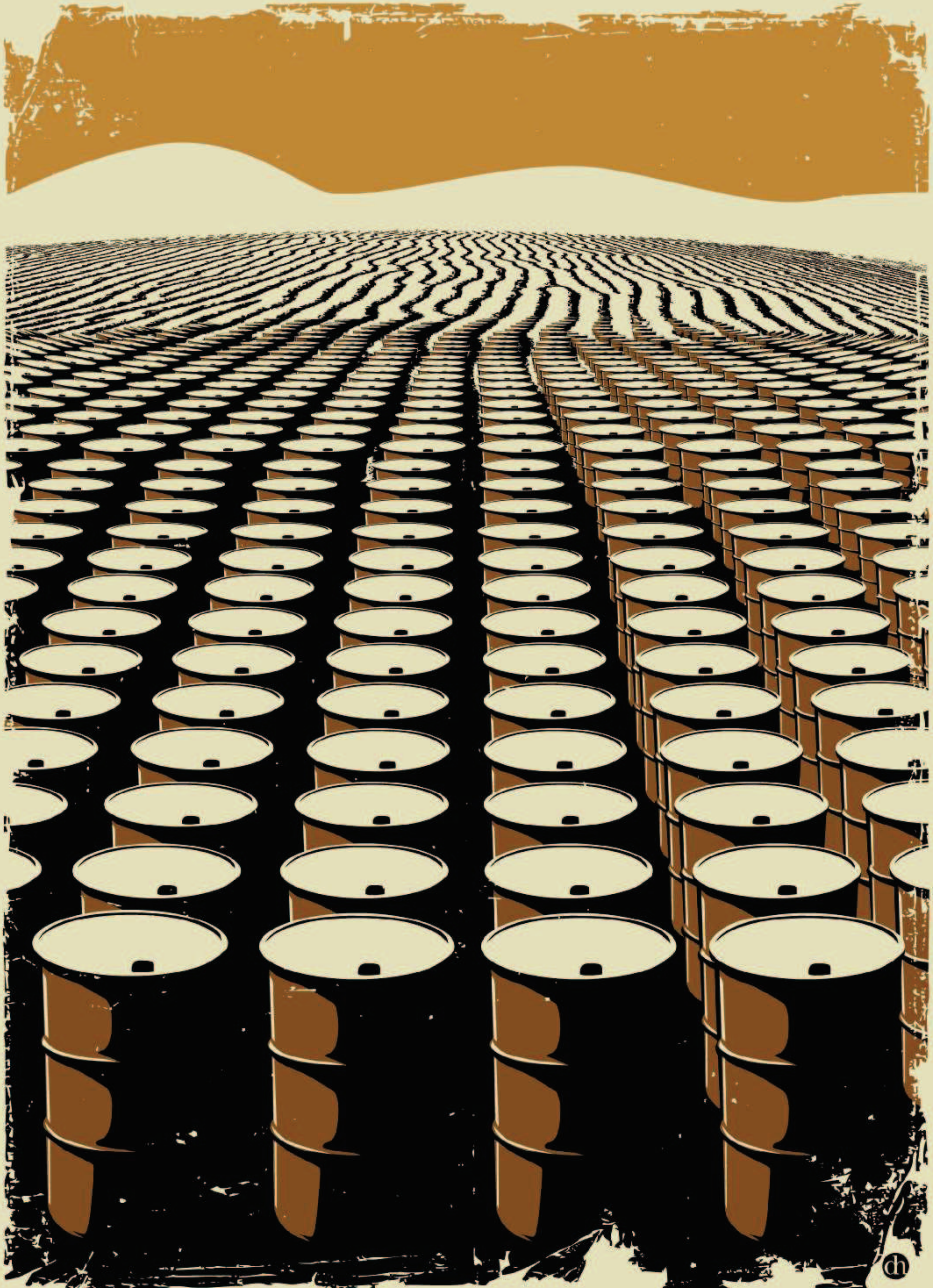
**Unfixable**

In the September 2009 *Atlantic* cover story, "How American Health Care Killed My Father," business executive David Goldhill runs through a litany of structural problems plaguing the health-care system, some of which he believes contributed to his father's death from a hospital-acquired infection. His conclusion: Our current system is unfixable, and a new health-care delivery method must be created, based in part on health savings accounts.

To read this and related stories, go to **http://bx.businessweek.com/health-care-reform/reference/**



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# ENDLESS OIL

**Technology, politics, and lower demand will yield a bumper crop of crude**

**By Stanley Reed**

Illustration by Daniel Hertzberg

Not many people think of the Netherlands as oil country, but a billion-barrel field lies under a nine-mile strip of grazing land along the Dutch-German border. When oil prices cratered in the 1990s, Royal Dutch Shell and ExxonMobil shut the Schoonebeek field down. Company executives reckoned that its thick, hard-to-extract crude wasn't worth the trouble, even though only about 25% of Schoonebeek's oil had been produced. The main evidence of the town's petroleum past was an old-fashioned bobbing oil pump, known as a nodding donkey, which still stands in a parking lot near a bakery.

Now higher prices and technological advances are spurring a new joint venture of Shell, Exxon, and the Dutch government to pump Schoonebeek's reserves once more. New wells drilled horizontally are



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coming in contact with more of the oil. Steam injected into the rock loosens up its molasses-like crude so it can be brought to the surface more easily. Shell won't say what price it needs to make such efforts profitable, but experts estimate $40 to $50 per barrel will do. At a current price of $80, the field is a clear winner. "We wouldn't do this if the price was really low," says Michael Lander, the Shell executive running the project. The venture is expected to produce 120 million barrels from the reopened western section of Schoonebeek over 20 years. If another section of the field is developed, the recovery rate—the share of oil that gets pumped out—would approach 50%. The industry average is 30%-35%.

**PRESSURE TO INNOVATE**

Schoonebeek will not flood the world with crude. But its success presents a stiff challenge to those who argue that oil production is in irreversible decline. Consumer demand, technology, and global politics are shifting in a way that could spell a future of oil abundance, not of catastrophic dearth. As Leonardo Maugeri, a senior executive at Italian oil major ENI, puts it: "There will be enough oil for at least 100 years."

Many analysts and industry executives have little doubt that there's plenty of oil in the ground. "Only about 32% of the oil [in reserves] is produced," says Val Brock, Shell's head of business development for enhanced oil recovery. Shell estimates 300 billion barrels and maybe more might be squeezed out of existing fields, much of it once thought beyond retrieval. Peter Jackson, Cambridge Energy Research Associates' London-based senior director for oil industry activity, has reviewed data from the world's biggest fields. His conclusion: 60% of their reserves remain available.

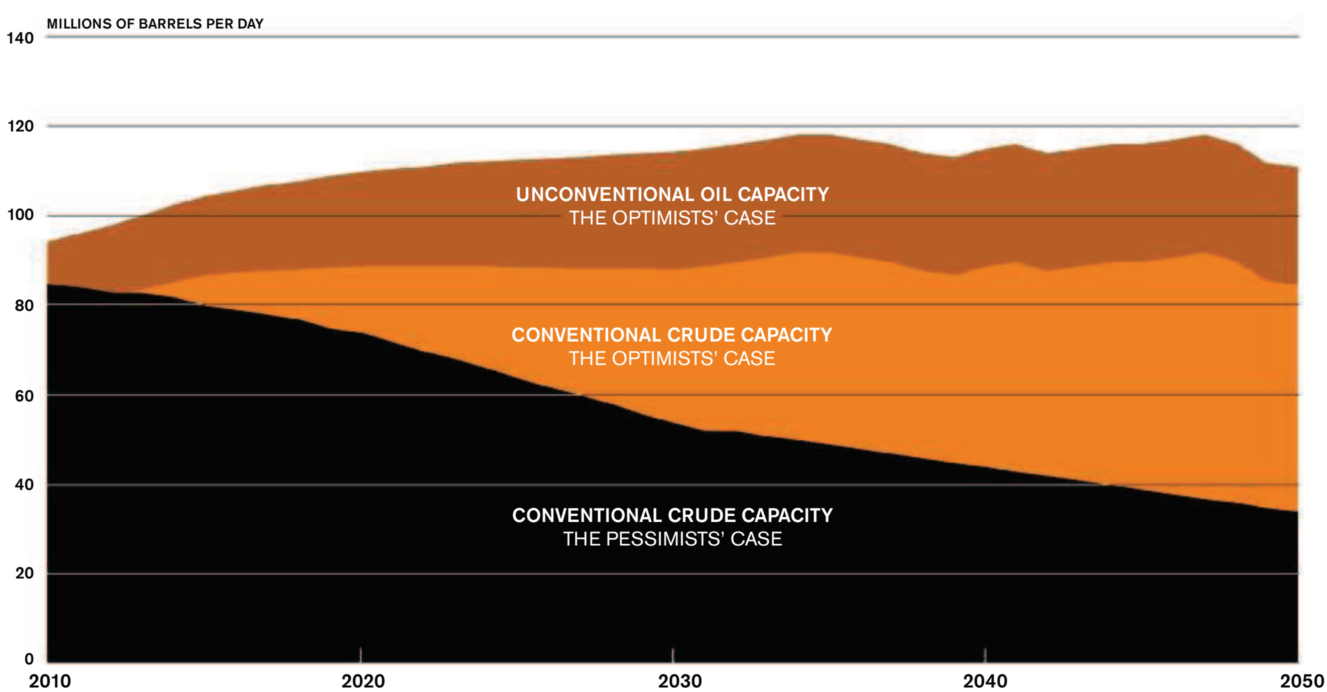
The fact that there's still oil for the taking is driving Shell and other majors to come up with new technologies, which are expensive to develop but worth it when crude is riding high. While the price has fallen considerably from the peak of $147 per barrel in 2008, it is still far above what many oilmen expected a few years ago. "You will see companies going into the deep water, going into the arctic, using the best technology," says Maugeri, who sees the oil industry as a dynamic system that responds rapidly to changes in the economic and political environment.

Even if the new technologies add just a few percentage points to the recovery rate, such gains add years to global supply and boost the industry's profits. So the technology of coaxing oil out of the ground is constantly improving. Heating up heavy oil, as at Schoonebeek, is one new trick. Companies can add heavy polymers to the water they blast into a production site to push more oil out; the polymers add weight to the water and increase the pressure on deposits. (Shell is trying such technology on the Marmul field in Oman.) Another tactic is to inject soap into the ground to break the surface tension that makes leftover oil cling to the rock.

Simple methods can help mature oil fields produce more and even uncover bigger reserves than imagined. A study of fields in Indonesia by Cambridge Energy found that it wasn't uncommon for them to produce more than double initial estimates. Petroleum engineers help the fields live longer just by drilling new wells or installing better pumps. "As a field ages, the operators learn more ... that allows them to tweak their op-

## THE ARGUMENT FOR AND AGAINST OIL ABUNDANCE

**Optimists think the age of oil will last far longer as the industry exploits unconventional sources and learns to maximize production from established fields. According to this theory, daily oil capacity will stay at a high level until 2060 and then only decline gradually. In contrast, pessimists argue that production has already peaked out and will decline sharply through 2050.**




Data: Cambridge Energy Research Associates



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## HOW TO MAKE THE OIL FLOW

A combination of old technologies and brand new approaches could extract more oil than thought possible.

### WATER OR GAS INJECTION

Pumping large volumes of water or natural gas into a field keeps pressure up and pushes more crude petroleum from the rocks. Fields under water injection typically have recovery rates up to 35%

### THERMAL

One of the new "enhanced recovery" techniques, this uses steam, electricity, or underground combustion to soften heavy oil and make it easier to pump out. The recovery rate using thermal techniques can go as high as 55%.

### CHEMICAL

This new method uses polymers to boost the power of water pressure and loosen trapped oil. Other chemicals, such as surfactants, make it easier to break oil free from rocks. This is in early development. Recovery rate: about 55%.

### CARBON DIOXIDE

Utility plants and oil fields both emit $CO_2$. Oil companies want to pump the $CO_2$ into wells to create enough pressure to force out oil. A kind of Holy Grail of enhanced recovery, this technique is only being used at a few sites.

Data: Royal Dutch Shell

erations," explains Leta K. Smith, a Houston-based analyst for Cambridge Energy.

Sharp falls in production can be arrested. Output at Samotlor, Russia's largest field, was plummeting in the late 1990s. The field's owner, TNK-BP, formed in 2003, has since managed to boost production by a third. Adjusting the placement of the pumps in the wells yielded big gains, while three-dimensional seismic technology gave a better glimpse of the oil-bearing structures under the ground.

### IRAQ'S WILD CARD

Pumping the oil that's already discovered isn't the whole story. Explorers, sometimes financed by hedge funds and private equity firms, are finding troves in the deep water off Brazil, West Africa, and even the U.S. At the same time, old and new oil powers—Russia, Brazil, Angola, Nigeria, and Kazakhstan—are ramping up their capacity with the aid of Total, ExxonMobil, BP, and other majors. These projects could eventually add 5 million barrels to global daily output.

The most surprising action is unfolding in Iraq, which has just cut deals with ExxonMobil, BP, and Shell as well as with Chinese and Russian companies. If all these ventures meet their targets, Iraq could produce as much as 12 million barrels a day, putting it in the super league with Saudi Arabia and Russia. Given the political and logistical obstacles Iraq faces, that seems unrealistic anytime soon. But 6 million barrels a day seems attainable within 10 to 15 years. That level would turn Iraq into OPEC's No. 2 producer after Saudi Arabia.

Moderating global demand can also stretch the supply of crude. After the oil shocks of the 1970s, efficiency gains and a switch by factories to natural gas prompted a nearly 10% drop in global oil consumption in the early 1980s.

The price spike of 2008 may lead to similar results. Lester Brown, president of the Earth Policy Institute in Washington, an environmental group, notes that the U.S. car fleet shrank by 4 million in 2009, thanks to scrapping and reduced sales. He expects that shrinkage to continue, reducing the U.S. fleet by 25 million cars by 2020. He also sees a cultural change occurring in which more people, especially the young, don't see owning a car as a necessity. "We are now looking at something new, a shift in the way people think about automobiles," he says. "That means less oil use."

U.S. oil consumption dropped by 9% over the last two years. The recession certainly hurt demand, but many analysts think oil use in the West has peaked and will not rebound to previous levels. The Energy Dept. sees the consumption of oil-based fuel in the U.S. flattening out in the coming decades. "Are people going to use energy differently in the next [growth] phase?" asks Goran Trapp, head of global oil trading at Morgan Stanley in London. "If so, the people forecasting [strong] demand increases are going to be surprised."

China is one key to answering Trapp's question. Even as the mainland devours oil and coal, the government is pursuing a green agenda. China has the world's top solar panel industry, a power plant in Beijng is one of the world's most efficient, and auto emission standards there are now tougher than those in the U.S. China's official policy mandates that alternate sources support 15% of the country's energy needs by 2020, up from 9% now. So China's petroleum consumption will keep increasing, but perhaps at not so steep a rate as expected. A nasty oil shock is always possible. But the case for bountiful oil is strong. |BW|

*–With John Carey in Washington and Dexter Roberts in Beijing*

**Business Exchange**

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**Every Last Drop**



In a draft of an article that appeared in the October 2009 edition of *Scientific American*, Leonardo Maugeri predicts that new technological breakthroughs will boost the oil recovery rate from around 35% at present to more than 50% by 2030. "If my estimates are correct, we will have oil for the rest of the 21st century," writes Maugeri, a senior vice-president at Italian energy company ENI.

To read Maugeri's article, go to http://bx.businessweek.com/oil-and-gas/reference/



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# WHAT'S NEXT



## STRATEGY & COMPETITION

# Hollywood's Ad Auteur

For $1 million a year, film director Brett Ratner will promote your company—and himself

**By Burt Helm**

The movie director Brett Ratner recently brought his brand of Hollywood salesmanship to the Manhattan headquarters of the global casino chain, Kerzner International. Ratner, best known for the $850 million-grossing *Rush Hour* action-comedy franchise, was keen to show CEO Sol Kerzner his latest opus—a collection of print ads, TV commercials, and online games that Kerzner hopes will generate some cinematic glamor for his Atlantis, Paradise Island resort in the Bahamas.

"Sol!" Ratner exclaimed, wrapping the 74-year-old mogul in a hug. The two men then repaired to a conference room. "We approached this like we were doing a blockbuster," Ratner told Kerzner and his team. After watching the presentation, Kerzner said: "I'm very excited. I wanted to get out of the ad agency thing. This takes it to a different level." The campaign rolls out this month.

Many Hollywood directors make TV commercials, but no one before Ratner has so aggressively blurred the line between corporate work and his day job. With the film studios cutting back, he sees a future when directors increasingly buddy up with companies, exchanging advertising concepts and product placements for money to make and market movies. "Filmmakers should align themselves with brands," says Ratner, 40. "They can help each other."

Brett Ratner Brands is helping Revlon liven up Mitchum deodorant and has made a series of Guitar Hero commercials for the video game publisher Activision. Ratner says he expects to win Wendy's, the fast-food chain, as a client soon. "Brett's got a young, fertile mind" and a knack for captivating an audience, says billionaire Nelson Peltz, whose company owns Wendy's.

**"IF YOU GET HIM ENGAGED ON A BRAND, WHATEVER HE'S WORKING ON, HE'LL FIGURE OUT A WAY TO GET THE BRAND IN THERE"**

Ratner has made a string of successful movies, but his greatest talent may be schmoozing. He talked his way into New York Film School at 16, then persuaded Steven Spielberg's production company to finance his first short film. Since then, he has displayed a knack for talking his way into high-profile gigs when another director walks, as with *Money Talks*, the 1997 action-comedy, and 2006's *X-Men: The Last Stand*. Now, Ratner is schmoozing his way into potentially lucrative business opportunities.

### THE UNDERWEAR DANCE

In December of 2007, when a writers' strike put movie-making on ice, Ratner got to talking with Robert Kotick. The CEO of Activision was about to launch the next iteration of its popular Guitar Hero video game. Kotick recalls asking Ratner for two things. First, he wanted Ratner to direct a Guitar Hero commercial featuring *American Idol* finalists. They would re-enact the famous scene from *Risky Business* in which Tom Cruise dances in his underwear. Second, Kotick wanted Ratner to help him name the new version of Guitar Hero.

Ratner came back with the title "World Tour" and a handful of promotional ideas. "He's an intuitive marketer, and he cuts through the clutter," Kotick says. "I thought he'd make a great resource for CEOs." If Ratner formed an agency, Kotick proposed, Activision would be his first client. So on May 22, 2008, the day after the *Risky Business* ads aired, Activision announced "Guitar Hero: World Tour," and Ratner announced the creation of Brett Ratner Brands, a partnership between him and the marketing department of Creative Artists Agency.

For a $1 million annual retainer, says Ratner, he provides clients with



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Ratner on the set with Maria Carey during the shoot of her new video, *Obsessed*

ALLISON JOYCE / REUTERS

## BRETT RATNER, THE TRAILER

**1969** Ratner is born in Miami Beach to 16-year-old Cuban Jewish mother, Marcia Presman, and Ronald Ratner, the son of a wealthy businessman. He is raised by his mother and maternal grandparents, who now live with him in Beverly Hills.

**1990** Ratner, then studying film at NYU, persuades Steven Spielberg's company to back *Whatever Happened to Mason Reese*, a short about a child actor.

**1992** Ratner breaks through as the go-to director for Def Jam music videos.

**1998** *Rush Hour*, an action comedy starring Chris Tucker and Jackie Chan, grosses more than $240 million worldwide.

**2006** *X-Men: The Last Stand* sets the record for the largest Memorial Day Weekend opening of all time.

**2008** With video gamemaker Activision as a first client, Ratner founds Brett Ratner Brands.

advice, advertising ideas, and Hollywood contacts. When it feels natural, he says, he incorporates the brand in his other projects. While shooting a Miley Cyrus video, Ratner asked the star to make like a grunge rocker and smash a Guitar Hero controller. Ratner made sure a photo ended up online where it was seen by millions. Ratner has since inserted Guitar Hero controllers in videos by Mariah Carey and Jamie Foxx. "If you get him engaged on a brand, whatever he's working on, he'll figure out a way to get the brand in there," says Kotick. There is a presumed quid pro quo at work. If Activision turns its games into movies, Ratner says, "who do you think is the first director they're gonna talk to about developing them?"

At least one of Ratner's ad hoc product placements proved to be a conflict of interest. He says Miley Cyrus' label, Walt Disney-owned Hollywood Records, prohibited him from putting the Guitar Hero controller in the final cut of the video (Hollywood Records did not comment). Others simply shrug. "At the end of the day, a director is going to put in the movie what he wants to put in the movie, and we're going to make the best of it," says Lee-Anne Stables, executive vice-president for Worldwide Marketing Partnerships at Paramount Pictures, which will distribute Ratner's *Beverly Hills Cop IV* (showing is not yet scheduled). Stables says she hopes any brand integrated into that film would assist the studio's marketing effort, as is standard practice.

Ratner's business relationship with Kerzner began when the South African casino mogul phoned the director asking whom he should call to refresh Atlantis' image after the recession. At the time, Kerzner says, he had no idea Ratner had started a branding agency. Ratner suggested himself.

As a film director, Ratner has never been critics' favorite. And the advertising world is less than enthusiastic



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about his Atlantis campaign, which sells the notion that a stay at the resort will transform vacationers. In one ad, a family of dolphins swims toward the resort. As they reach the shore, they morph into a vacationing family who walk onto the beach. "The effects do serve the strategy of communicating a fun, tropical, family, destination, but other than that—big deal," says Bob Garfield, advertising critic at *Advertising Age*. "If Ratner is supposed to bring Hollywood magic to the land of advertising, so far not so good." Ratner, surprised to hear that there are critics in the ad world, too, says: "As long as it gets people to book hotel rooms, I'm happy."



Ratner in 1992, directing his first commercial shoot for Phat Farm, the apparel company

Ratner can help deliver those bookings, a key difference between himself and traditional agencies. This year the director plans to include the Atlantis resort as the setting for an episode of a show he just sold to the CW Television Network, called *Lost Weekend*. Then there is the attention Brett Ratner attracts for simply being Brett Ratner. On Jan. 4, Entertainment Tonight aired a segment devoted to the director's work for Atlantis. In it, Ratner trumpeted the resort's various charms. "It's not just a hotel," he said. "It's a destination." Later, an ET host invited viewers to visit ETOnline to watch an "exclusive Director's Cut" (a 2-minute version) of the ad. Kerzner also paid for ads to run on TV and the Web, but Ratner was the draw. "We wouldn't normally focus on a commercial campaign," says Marc Weinhouse, an executive at CBS Television Distribution, which owns ET. "But it made a lot of sense because of Brett." | BW |

STRATEGY & COMPETITION

# Sony and Samsung's Strategic Split

## While Sony bets on outsourcing TVs, the Korean giant is building an edge by making its own

**By Moon Ihlwan**

Samsung Electronics and Sony both were set to unveil new 3D TVs at the annual Consumer Electronics Show in Las Vegas on Jan. 7. The products are similar. The strategy behind them is not. The difference, simply put, is about making stuff.

Sony increasingly believes hiring others to build its TVs will cut costs and help it regain financial health, while Samsung continues to make its own sets. "Giving up manufacturing is tantamount to abandoning your brand," says Yoon Boo Keun, president of Samsung's TV business.

Sony co-founder Akio Morita once held manufacturing sacred, too, so why the switch? The Japanese giant is headed for its first back-to-back annual losses since its 1958 listing—a total of some $1.9 billion over two years. Morita's successors believe their advantage is in games, movies, and music. "We would like to concentrate our resources on Sony-unique applications," says spokeswoman Sue Tanaka. This year Sony hopes to boost sales of its Bravia TVs by giving buyers content via the Internet, including streaming Sony films before their DVD or Blu-ray releases.

Now, Sony aims to outsource production of 40% of all TVs. On Jan. 1 it sold its biggest North American TV plant, in Tijuana, Mexico, to Taiwan's Hon Hai Precision Industry. Citigroup notes the fastest growth in TVs is in low-end sets sold in China and other developing countries—production that can more easily be outsourced than sophisticated models. Another argument for outsourcing is that even when Sony builds its own liquid-crystal-display TVs, it relies on Samsung and Sharp for LCD panels, a key component.

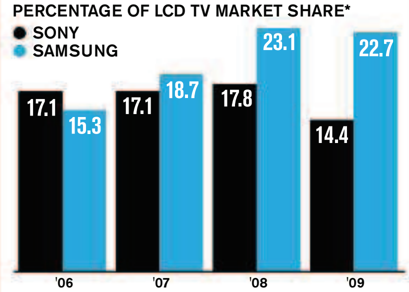
HOW TO PLAY IT 61

In contrast, Samsung is becoming more like the old Sony. It's now the only major TV maker that also produces the computer chips at the heart of new digital TVs. Samsung says that helps it more quickly introduce newfangled services such as Internet access, turning TVs into the centerpiece of home entertainment. Owning its factories, Samsung says, also lets it reap all the benefits from new efficiencies. "You need a harmonious chorus of manufacturing, design, and marketing for a TV business," says TV chief Yoon. "But manufacturing remains the key." | BW |

*—With Mariko Yasu in Tokyo*

### TVs: SAMSUNG BEATS SONY

PERCENTAGE OF LCD TV MARKET SHARE*




*As measured in revenues
Note: 2009 figures are through Q3 2009
Data: DisplaySearch

CHART BY DAVID FOSTER



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# The Painful Education of a Real Estate Scion

Rob Speyer has made some savvy deals, but bad timing on others is challenging his family's empire

**By Oshrat Carmiel and David M. Levitt**

Rob Speyer showed little interest in his family's real estate business until his dad considered buying Manhattan's Rockefeller Center in 1995 for $1.2 billion. Intrigued by plans to revitalize the art deco complex, Speyer, then 26, left his job at the New York *Daily News* and joined Tishman Speyer, the firm his father founded with Robert Tishman in 1978. "I caught the bug," he says. "It was really hearing about that transaction that flipped the switch in my head and made me say: 'I want to learn this business.' "

Some 19 months after being named co-CEO with his dad, Rob Speyer is learning how to weather a commercial real estate rout. At least four big deals made by the firm as property prices peaked are unraveling. Stuyvesant Town and Peter Cooper Village, the Manhattan apartment complex that Tishman Speyer and BlackRock Realty bought for $5.4 billion in 2006, is on the verge of default and worth just $1.8 billion, according to credit rating company Fitch. "The overriding thing in real estate is timing," says Peter Hauspurg, chairman of Eastern Consolidated Properties, a real estate brokerage. "No matter how strong your skill sets are, if you buy at the wrong time, there's no way you can make it work out."

The 40-year-old Speyer and his father are major players in the industry drama that continues to unfold. The second-largest buyer of U.S. offices, malls, and apartment buildings since 2001, Tishman Speyer now sits atop a $33.5 billion empire that includes such high-profile properties as the Met Life Building in New York, the Civic Opera Building in Chicago, and the Paris Bourse. Like rivals, the firm faces the dual pressure of falling prices and rising vacancies; values in commercial real estate have dropped by 44% since their October 2007 peak, more than in the residential market.

The younger Speyer hasn't experienced the boom and bust cycles of his father, who at 69 is a 30-year industry veteran. A graduate of Columbia University, Rob Speyer passed up the prestigious Marshall scholarship for graduate school in Britain to go into journalism. In the early 1990s, Speyer worked as a reporter for *New York Observer* and the *Daily News*, where he broke a housing scam in the South Bronx and covered the U.S. invasion of Haiti.

Rob Speyer first learned the family business as part of the firm's management and leasing group. In the makeover of Rockefeller Center, he replaced

## PINCHED PROPERTIES

**Deals made by Tishman Speyer at the top of the market are suffering**

### STUYVESANT TOWN & PETER COOPER VILLAGE

Tishman Speyer and BlackRock Realty paid $5.4 billion for Manhattan's biggest apartment complex, which is now worth an estimated $1.8 billion

### PLAYA VISTA

The lender wants to foreclose on the Los Angeles industrial, office, and film production property after the owners, including Tishman Speyer, failed to repay $154 million of debt, according to a complaint

### ARCHSTONE-SMITH OPERATING TRUST

Tishman Speyer and Lehman Brothers purchased the apartment portfolio for $13.6 billion in 2007; since then, values of apartment properties have dropped 39%

### CIVIC OPERA BUILDING

Tishman Speyer is renegotiating with the Federal Reserve on $1.4 billion of debt backed by the Chicago property and four other office buildings; the Fed inherited the loans after the collapse of Bear Stearns

Data: *Bloomberg BusinessWeek*, court documents, Tishman Speyer

LARS KLOVE FOR *THE NEW YORK TIMES*/REDUX PICTURES



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New York's Stuyvesant Town has been a setback for Rob and Jerry Speyer

a U.S. passport office with a Reebok Sports Club, the first of many high-end tenants he lured. "That was a very exciting negotiation," says Speyer. "The passport office created these lines ... around the building, and it was not great for the repositioning of the center." In 1998, Speyer joined the company's redevelopment unit and modernized 300 Park Ave., the headquarters of Colgate-Palmolive; the property, bought for $180 million, was recently appraised at $650 million.

**DEBT SCRAMBLE**

Now Rob Speyer and his father are focused on reviving some of their splashiest deals. The company is in talks to overhaul debt on five downtown Chicago office buildings bought in 2007, including the opera center. A partnership that includes Tishman Speyer is trying to block its lender from foreclosing on a 56-acre office park in Los Angeles. Another Tishman Speyer group with 21 office buildings in the Washington (D.C.) area suspended interest payments on roughly $570 million in debt and is renegotiating with creditors, according to a Dec. 18 report by Standard & Poor's.

The biggest setback for the Speyers is in their hometown. When Tishman Speyer and BlackRock bought Stuyvesant Town and Peter Cooper Village in 2006, they planned to raise rents, evict illegal occupants, and upgrade the complex with amenities, including a gym, concierge service, and new gardens. From the outset the deal to transform the 11,200 affordable housing units into luxury apartments was controversial. Tenants took the buyers to court over what they claimed were illegal rent increases. Then the recession hit, rental demand slackened, and the tenants won their case.

The Speyers are struggling to turn the property around. The firm has just started signing up new tenants and filling 100 vacant apartments. A temporary agreement with occupants will reduce some rents starting this month. With the property's reserve fund running dry, Tishman Speyer and its partners are trying to restructure $3 billion in debt. "It's clearly been a tough deal," says Rob Speyer. "We're not in a great position."

Despite the problems, the Speyers may not take much of a financial hit. As with many of its purchases, Tishman Speyer put in little of its own money, persuading big institutional investors, including the Church of England, to fork over the rest. The Florida State Board of Administration, the fourth-largest U.S. pension fund, invested $250 million, a stake it's valuing at $0. Tishman Speyer's hit will be limited to its $112 million investment, a person familiar with the structure of the deal says.

Even after significantly marking down the value of Stuyvesant Town and other properties, Tishman Speyer has earned 20% a year over the past decade, according to the company. The returns have been cushioned by some notable sales. In 2007, Tishman Speyer got $525 million for the former New York Times Building in Midtown Manhattan, which it bought for $175 million three years earlier. The company sold 666 Fifth Ave. to Kushner Cos. for $1.8 billion in 2007, the highest price ever paid for a single U.S. office building at the time.

With $2 billion in cash, the Speyers have so far been able to continue their dealmaking. In November, Tishman Speyer paid $95 million for 114,000 square feet of office space in central Paris. Meanwhile, the Speyers continue to look for trophy properties. "If you're engaged in this business then you will never have every deal that succeeds," says Jerry Speyer. "It's not possible if you take some risks." |BW|



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Occupants wanted: A vacant board listing for an office complex in Sunnyvale, Calif.

KEVIN THRASH/BLOOMBERG

INNOVATION & TECHNOLOGY

# Tremors In the Valley

America's tech capital is not immune from the aftershocks of a commercial building bust

**By Dan Levy**

Imagine 15 Empire State Buildings, all of them sitting empty. That real estate broker's nightmare comes to more than 43 million sq. ft., which is how much commercial space stood vacant in Silicon Valley as of the end of the third quarter, according to CB Richard Ellis Group. And though vacancy rates in the Valley have not reached the levels seen in the wake of the dot-com bust, property owners may be worse off today. That's because many defunct Internet companies back then continued paying rent through the venture capital firms that funded their leases. Now Valley players that have survived the hard times are fighting for—and in many cases winning—sizeable discounts on rents that are already off some 20% from last year's levels.

By some estimates the rate of commercial foreclosures in the Silicon Valley area will at least double in 2010. That works out to about $1.5 billion in foreclosed properties, according to data compiled by New York-based research firm Real Capital Analytics. "Many of these assets have lost half their value," says Real Capital managing director Dan Fasulo. "That's a bloodbath."

**21%**

Vacancy rate for Class A office space in Silicon Valley

Data: CB Richard Ellis

California's info tech sector has lost more jobs in the past year than any other except construction and mining, state data show. Unemployment in the San Jose-Sunnyvale-Santa Clara metro area hit a two-decade high of 12.1% in August and has since eased only slightly, to 11.8% in November. Applied Materials, Sun Microsystems, and Adobe Systems have announced more than 5,000 layoffs since October amid falling sales of computer chips, software, and equipment. Even stalwarts like Hewlett-Packard and Cisco have pared back their workforces over the past year to safeguard profits.

Meanwhile, developers added more than 4 million sq. ft. of speculative office space in the Valley since 2007, building gleaming towers on the expectation that startups would move into classier digs as they matured. Now 21% of the area's top-of-the-line office space is vacant, as is 20% of low-rise so-called flex space that can be adapted for offices or manufacturing, reports CB Richard Ellis. Some buildings in downtown San Jose, such as the Riverpark Tower II, a 318,372 sq.-ft. high-rise completed in July and owned by Foster City (Calif.)-based Legacy Partners Commercial, and a 381,000 sq.-ft. tower that Oracle acquired in the 2008 takeover of BEA Systems, sit empty. Legacy is showing the building to prospective tenants, says Lisa Morrissey, vice-president of marketing. Oracle didn't return calls seeking comment. "None of those towers will fill up anytime soon," says Jon Haveman, co-founder of Beacon Economics, a consulting firm in San Rafael, Calif.

Asking rates on Class A office space averaged $34.56 a square foot in the third quarter, a 21% drop from a year earlier, while rates on flex space averaged $14.16 a square foot, down 16%, according to CB Richard Ellis. That's great news for the likes of Facebook, which signed a lease on roomier quarters in December 2009. The company's new Palo Alto home will span 265,000 sq. ft. across four low-rise buildings that once housed the lathes and centrifuges of a medical device manufacturer. "We're at the end of a bubble," says Stephen Levy, director of the Center for the Continuing Study of the California Economy in Palo Alto. "It will take a long time to get the momentum going." |BW|



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# INNOVATION & TECHNOLOGY

CONSUMER ELECTRONICS SHOW HIGHLIGHTS/EDITED BY PETER ELSTROM



PORTABLE COMPUTING

## Netbooks: The New Generation

Netbooks, the stripped-down laptops touted by gadget makers at the 2009 Consumer Electronics Show (CES), have been pushed aside this year for even smaller mobile computers, dubbed smartbooks. Scaled down in size and computing power, smartbooks are designed to run Web applications such Facebook and YouTube—and not much else.

At less than two pounds, Lenovo's Skylight (above) is about a pound lighter than the typical netbook. Its curvy, clamshell design opens to reveal a full keyboard. With over 10 hours of battery life and a hookup to AT&T's wireless network, the petite PC can be left on virtually all day. "It represents this new wave of always-connected devices," says Rob Enderle, an independent tech analyst.

Skylight runs on a chip made by Qualcomm and uses an operating system built in-house. It will be available in April for $499; customers who sign up for an AT&T data plan could see the price fall to $200. *-Douglas MacMillan*

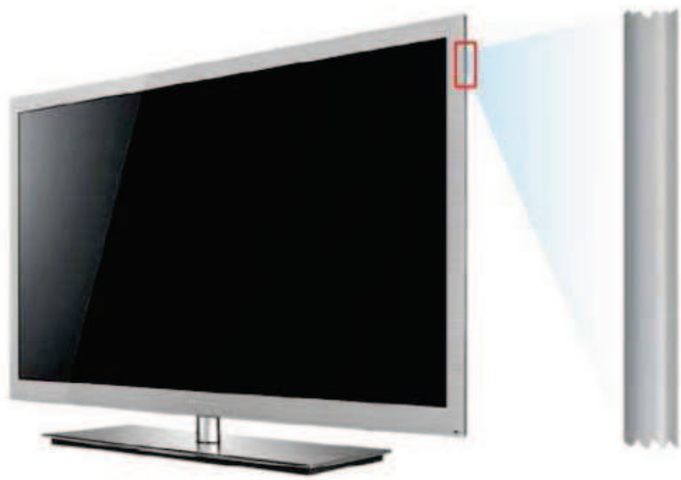
TELEVISIONS

## Can Your TV Ever Be Too Thin?

For years, big-screen televisions have been the big draw at CES. This year, though, the fight isn't over size, but thickness. Korea's LG is unveiling a high-definition television a mere 0.92 inches thick, thinner than any set now on the market. The TV, expected to hit the market this summer, will also be 3D-enabled.

Not to be outdone, Samsung plans to use CES to show off a high-definition set with a thickness of 0.27 inches, slightly skinnier than a pencil. Other manufacturers are expected to follow with their own slim TVs, including many that wirelessly receive content from a set-top box tucked away elsewhere.

The battle to get thin is for more than bragging rights. Competition has squashed profit margins in big-screen televisions. By slimming down their TVs and packing in more features, consumer electronics companies aim to restore the profitability they once enjoyed. *-Cliff Edwards*



**Skinny, but not mini: Samsung's LED9000 and its actual thickness**

E-READERS

## Kindle's Corporate Competitor

Amazon doesn't have a booth at CES. But the company behind the Kindle is keeping a close eye on the action in Las Vegas, where an array of rival e-readers are on display. Among the most promising: Plastic Logic's QUE proReader, a large reader created with white-collar workers in mind. The QUE, which goes on sale in April for $649, is one of a new class of high-end readers. Its 10.7-inch screen beats the largest Kindle by an inch, and Plastic Logic claims the display is made of "shatterproof" plastic. Unlike the kindle, the QUE relies on a touch screen for input rather than a physical keyboard.



**All business: QUE's rugged display is easy on the eyes**

Executives may be able to persuade their companies to spring for the QUE, since it can display Excel and PDF documents without distortion, and its screen handles diagrams and tables better than most. Newspapers such as the *Financial Times* and *USA Today* will be specially formatted for the device. *-Douglas MacMillan*



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INNOVATION & TECHNOLOGY

# Dumping the Office Desktop

Some companies are cutting costs by turning to netbooks—and turning away from IT



By Rachael King

CEO GUIDE TO TECH

Don't get between Parikshit Arora and a balky computer. The day Arora discovered his office machine wasn't booting up, he tossed it in the trash. "I didn't even care to find out why," says the vice-president for technology at iQor, which manages call centers in the U.S. and overseas. "I threw it away and got another one."

So it goes for 75% of iQor's 11,000 employees. The New York company ditched most of its Dell and Hewlett-Packard desktop computers in 2009 and installed a fleet of cheaper, stripped-down machines known as thin clients. These smaller, often disposable devices, made by HP and Wyse Technology, lack hard drives and leave processing and storage to a centrally located server. They cost as little as $200. "We refer to thin clients as lollipops," says iQor Chief Executive Vikas Kapoor. "If yours isn't working, just get another one."

**A TECH SURGE AHEAD?**

While traditional laptop and desktop PCs still account for the vast majority of employee computers, many companies are feeling out alternatives. Besides those using thin clients, some are betting on netbooks, which handle many of the same tasks as laptops but are smaller and cheaper. Others are letting more workers use smartphones for office work. "We've got the most diverse offerings of [computing devices] that we've ever had," says Richard Shim, manager for personal computing at tech research firm IDC.

The number of thin clients sold worldwide is expected to grow to 7 million in 2012 from 2.9 million in 2007, according to IDC. IQor opted for the machines largely to save money. "For every dollar I spent buying a PC, I spent 50¢ every year maintaining it," says Kapoor. "There's a lot of technical expertise that's required to do that maintenance." IQor has eliminated its help desk and, before long, expects to cut its IT staff of several hundred by 75%.

Still, weaning employees off traditional tech gear hasn't always been easy. "Initially [the thin client] wasn't as fast as our PCs," says Arora. "It was quite frustrating," he says. After the kinks were worked out, the machines' performance has been comparable to that of PCs, he says.

Many companies are in the midst of deciding what kind of computers to buy. Some delayed tech purchases because of the recession, and others decided to hold off until Microsoft introduced its Windows 7 operating system to replace its much-maligned Vista. In a November survey of 1,752 IT managers by ChangeWave Research, about 22% of respondents said they plan to increase tech spending in the first quarter of 2010, up from about 10% a year earlier.

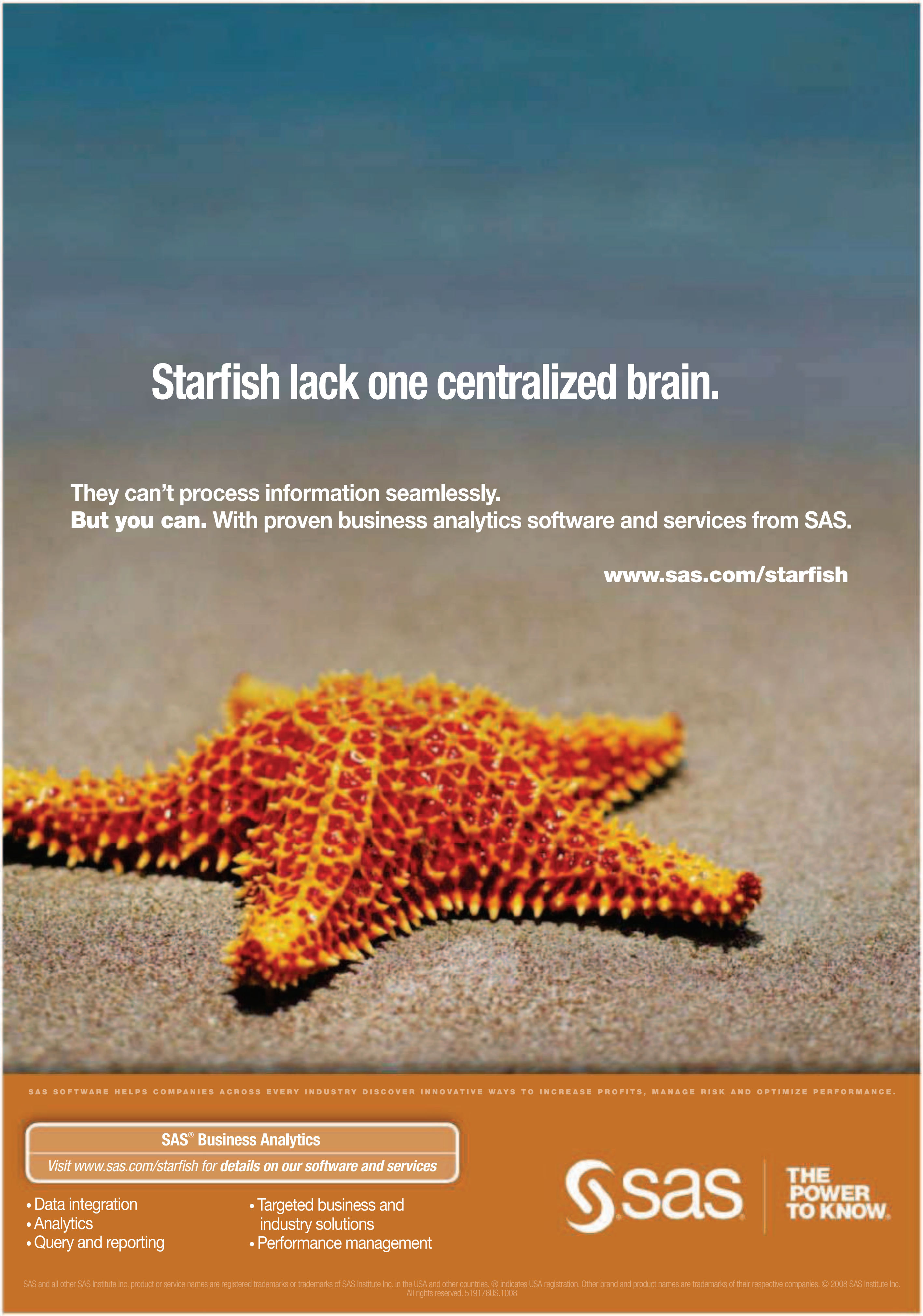
Silicon Valley law firm Fenwick & West has been using computers that run Windows XP, the operating system that preceded Vista. This year the firm plans to give its 700 employees new machines, its first upgrade in three years. While the firm is opting largely for laptops and desktops this time around, says Chief Technology Officer Matt Kesner, it's considering alternatives for the future. "It's possible this is the last refresh we will do with traditional computers," he says.

The PC is still the parent in the computer family, but its brood is growing. "As we go forward, the PC is going to be just one of the key tools that workers use," says IDC analyst Al Gillen. "There will be many more options." |BW|

KEITH NEGLEY



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# PERSONAL BUSINESS




Shenzhen: Coca-Cola is expanding overseas

MONEY REPORT

## GLOBAL WINNERS

**U.S. multinationals that make a big chunk of revenue overseas returned nearly twice the gains of the overall market in 2009, according to Goldman Sachs.** Goldman ranked all 10 industry sectors in the Standard & Poor's 500-stock index to get a diversified list of 50 companies with the highest exposure to faster-growing foreign markets. They returned an average 51%, vs. 26% for the S&P. ¶ The median stock in the Goldman Sachs International Sales basket, created in 2006 as a benchmark for money managers, derives 68% of its sales from outside the U.S. The median S&P 500 company pulls in 25% of its sales overseas. The trend may well continue. Goldman strategist David Kostin favors "firms with high sales exposure to Brazil, Russia, India, and China ... given the significantly higher GDP growth outlook." Goldman ranks Pfizer, Coca-Cola, and Merck among the largest multinationals with a big portion of sales coming from these countries. –*Tara Kalwarski*

FACTORIES

## THAT HUM YOU HEAR...

U.S. manufacturers reported the highest expansion rate in more than three years for December 2009, according to a Jan. 4 report from the Institute for Supply Management (ISM). ISM's manufacturing index, which gauges overall economic activity at factories, climbed to 55.9. That's up from a low 12 months earlier of 32.9.




"The recovery in manufacturing is continuing," says Norbert Ore, who chairs ISM's survey committee. "But there are still some industries mired in the downturn."

Among industries that reported growth in overall activity are petroleum and coal, computers and electronics, and machinery. Seven industries were still contracting, including wood, nonmetallic minerals, and plastics and rubber. The Dow Jones industrial average gained 1.5% on the news, while shares of equipment makers Caterpillar and Honeywell International each rose 3%. Investors willing to wager on a broad recovery for the sector can check out Vanguard's Industrials ETF, which tracks 375 large, midsize, and small U.S. manufacturers. –*T.K.*

STOCKS

## A BANK ON THE RISE?

**Shares of Morgan Stanley opened 2010 with a 4.4% increase in price, to 31, as equity analysts at both UBS and Credit Suisse issued upgrades to the stock on Jan. 4. Morgan Stanley shares had traded as high as 91 in 2000. More recently, in June 2007, they peaked at 74 a share.**

**Glenn Schorr of UBS says that the bank "remains a work in progress" and predicts that near-term growth will be "sluggish." (The company is scheduled to announce fourth-quarter 2009 financial results on Jan. 21.) Even with such a ho-hum prognosis, Schorr says the stock could rise as much as 20% by yearend. "The firm's capital and liquidity positions remain strong," he says.**

**Credit Suisse analyst Howard Chen also sees the potential for higher earnings, especially given Morgan Stanley's joint venture with Smith Barney. Chen upgraded the stock from "neutral" to "outperform," predicting that its shares could reach 38 over the next 12 months. –*T.K.***

(TOP TO BOTTOM) PHOTOGRAPHS BY IMAGINECHINA/AP IMAGES; JIM R. BOUNDS/BLOOMBERG



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# HOW TO PLAY IT | SONY


STRATEGY & COMPETITION

Sony and Samsung's Strategic Split

While Sony bets on outsourcing TVs, the Korean giant is building an edge by making its own

(FROM PAGE 052)

By Mariko Yasu

**Sony has struggled for years to recapture the glory days when its Walkman and Trinitron brands were the hottest things in electronics.** Since then the company, with $79 billion in sales expected this fiscal year, has scored successes intermittently with its motion picture division, its PlayStation game machine, and its high-end Bravia line of flat-panel TVs. But it has yet to achieve a solid turnaround with all divisions pulling their weight. Play Station 3 does not dominate the industry the way its predecessor did: It has lost ground to Nintendo's Wii and Microsoft's Xbox and is not quite the money machine it once was. Sony's consumer electronics business remains a work in progress.

This neither-one-nor-the-other position makes it hard to assess the value of Sony shares. They reached a recent peak of 78 in mid-2007, but the Tokyo-listed stock now trades at 29. That's after a 39% runup from last year, with Sony benefiting from general market euphoria and investors' desire to scoop up the battered blue chip's shares on the cheap. (Sony also trades in New York as an American depositary receipt. Recent price: 29.85.)

**$1 billion**

Estimated annual loss for Sony in the fiscal year ending Mar. 31, 2010

Data: Company reports

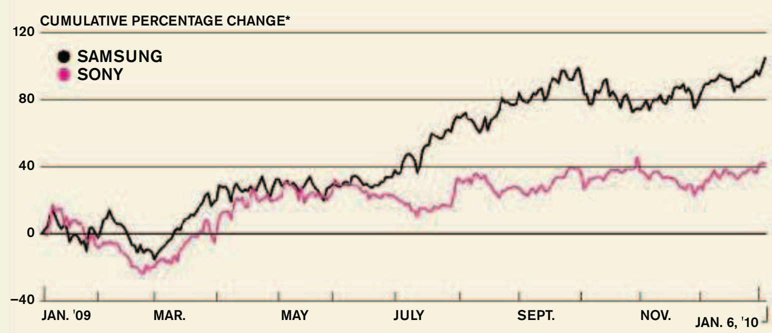
The stock still looks inexpensive to Junichi Misawa, head of equity investment at Tokyo-based STB Asset Management, which manages the equivalent of $14 billion. "You can expect a return from a stock whose price-book ratio is below one," says Misawa. Sony's price-book level, a ratio of the stock price to the book value per share (a company's book value is tangible assets less liabilities), stood at 0.92 as of Jan. 4. In other words, the shares trade for less than what Sony's assets are worth. That compares with an overall price-book ratio of 1.43 for Japan's benchmark Nikkei 225 Stock Average and 1.66 for Sony rival Samsung Electronics, whose shares surged 77% in 2009.

The bargain price only goes so far in attracting buyers, though. "Sony seems to be lagging behind its peers in emerging markets, and the company's strategy on how to strengthen its product line still remains unclear," says Yoji Takeda, who manages the equivalent of $1.1 billion at RBC Investment (Asia) in Hong Kong. Sony generated $18 billion in revenue outside Europe, Japan, and the U.S. in the year ended March 2009. By comparison, Samsung had sales of $17.5 billion in China alone and $18 billion in the rest of Asia outside of South Korea. Sony plans to invest heavily in the so-called BRIC countries—Brazil, Russia, India, and China—to broaden its customer base.

Sony Chief Executive Howard Stringer (page 15) said recently that televisions, game consoles, and other electronics capable of producing 3D images will generate $10 billion in sales in the year ending in March 2013. The

## SONY LAGS, SAMSUNG SOARS

**Shares in the Japanese giant have fared so poorly they may be a bargain**




Data: Bloomberg

*U.S. dollar-adjusted

CHART BY DAVID FOSTER

company is entering the lithium-ion car battery market and is boosting its online services for downloading music and video. Stringer is near his target of cutting some $4 billion in costs by eliminating almost 20,000 jobs and shutting 10 factories. Writedowns and other expenses will result in a net loss of $1.03 billion this year ending March 2010, Sony says.

Out of all this, no game-changing device has yet emerged. All but 1 of 38 brokerage firms' ratings compiled by Bloomberg advise clients to buy Samsung. In contrast, only 9 of 21 brokerages recommend Sony. |BW|



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PRECIOUS METALS

# GOLD'S SISTER ACT

By John Rothchild

**Some of the canniest Wall Street advisers live far from Wall Street.** Contrarian Marc Faber writes *The Gloom Boom & Doom Report* from Hong Kong; Bob Prechter tracks market gyrations (his so-called Elliott Waves) in the Georgia foothills; chart watcher Jim Stack keeps readers of his *InvesTech* newsletter out of bear markets while watching live bears from his window in Montana. Not so famous, Mary Anne and Pamela Aden advise on precious metals markets from San Jose, Costa Rica.

Subscribers to *The Aden Forecast* who acted on the sisters' long-term buy signal in 2003 enjoyed gold's rise from $300 an ounce to its recent poke through $1,200. The Adens also prescribe doses of stocks, bonds, cash, and currencies. In October 2008, at the rim of the sinkhole that swallowed many a retirement account, their model portfolio was 55% cash. It stayed that way for months, until the market bottomed out.

A raucous ride through San Jose traffic leads to the Aden headquarters above town, where calm prevails. The sisters and five employees occupy a bungalow with a central courtyard full of plants. At the end of the day, the duo walk down a lane to magnificent houses where they live side by side. They're both bilingual, sixtysomething, charming, unassuming, and married to lawyers who don't practice law.

### UNLIKELY PATH

The Adens ended up tracking gold in Costa Rica through a series of happenstances. Their mother, a Costa Rican aristocrat who raised them in Long Beach, Calif., moved back to Costa Rica in 1970. They joined her full-time in 1973 and began learning the financial markets two years later through John Bryan, a Boeing engineer who retired to San Jose to tend his ample stock portfolio. Mary Anne programmed his primitive computer to track his net worth, and for four years they sat in Bryan's sparse office, studied markets, waited for his seemingly imaginary Swiss girlfriend to show up, and drank hot Cokes because he wouldn't waste money on a refrigerator.

Their next boss led the Adens into metals. Jerome Smith was the legendary "Silver King" for his calls on the price of silver in the late '60s and '70s. (His cheerleading coaxed the Hunt brothers of Texas into silver, where they cornered the market that ruined them.) While Smith day-traded futures contracts, the Adens studied commodities in his library.

In 1980, Smith had the sisters write an in-depth study of the gold market. His friend Jim



## SLICING UP ASSETS

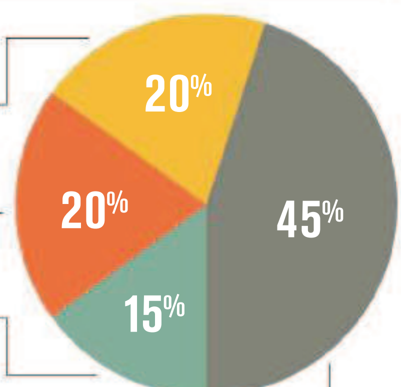
**The Adens believe gold, silver, oil, and emerging markets remain good long-term bets. Here's their recommended asset allocation as of mid-December.**

**20% U.S. and global stocks and exchange-traded funds (ETFs)**
**Top picks:** SPDR Consumer Discretionary (XLY), iShares S&P North American Technology (IGM), Dow Diamonds (DIA), iShares S&P Global Technology (IXN), iShares MSCI Mexico (EWW)

**20% Cash: Australian and Canadian dollars, euro or currency funds**
**Top picks:** CurrencyShares Australian Dollar (FXA), Merk Hard Currency Fund (MERKX), Franklin Templeton Hard Currency (ICPHX), CurrencyShares Canadian Dollar (FXC), CurrencyShares Euro (FXE)

**15% Energy and resource stocks**
**Top picks:** BHP Billiton (BHP), Rio Tinto (RTP), Freeport McMoRan (FCX), iShares S&P Global Energy (IXC), Diamond Offshore Drilling (DO)

**45% Metals: Gold and silver—physical metal, ETFs, gold stocks**
**Top picks:** SPDR Gold Shares (GLD), iShares Comex Gold (IAU), Silver Wheaton (SLW), Eldorado Gold (EGO), IAMGOLD (IAG)




JEFFERY SALTER/REDUX; CHART BY ALBERTO MENA/BW



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Pamela (left) and Mary Anne Aden track gold from San Jose, Costa Rica

Blanchard—another prepare-for-the-worst guy—invited them to speak at a hard-money conference. "After we sold 25,000 copies of our report at $25 apiece," says Pamela, "he helped us launch *The Aden Forecast*."

Now, for $250 a year, the Adens' 4,000 subscribers get a monthly state-of-the-markets essay, weekly updates, a recommended asset allocation, and a list of Aden-approved stocks and funds (table). A computer program at *Hulbert Financial Digest* that tracks a slew of investment letters, pretending to buy and sell everything each letter recommends, shows the Adens with an 8.09% annual gain over the last five years, vs. 1.11% for the Wilshire 5000. When measured against a broad range of rival newsletters over 10 years (as far back as the Hulbert numbers go), the Adens rank 30th out of 86 in the database.

The Adens' biggest goof was in 1983. Gold was at $680 and looking good for the long run. But then-Federal Reserve Chairman Paul Volcker squashed inflation by raising interest rates. Gold sank to half its price and stayed down for 20 years. "We were new at this game," Mary Anne says. "We felt pressure from subscribers who wanted us to stay bullish. We learned a hard lesson: Never argue with reality." When the price breached a level they considered key, they got out and stayed out for most of the metal's two decades of doldrums.

### FOLLOW THE WIGGLES

In their shared office, the Adens work at a conference table facing a huge wall of charts, tattered and yellowed like vintage maps of early explorers. Here they follow the wiggles on the trend lines that lead to their decision-making. The TV set shows gold hitting new highs, but the sisters are blasé, since they are in gold for the long haul.

The Adens' advice is based on technical analysis: follow moving averages, watch for a break in a trend line, check momentum to see when a rally poops out. They're alert for any change in a "megatrend"—when the price of an asset breaks out of an established pattern. They're seeing that in 30-year Treasury bonds: A move above a 4.69% yield reversed a trend going back to the 1980s, they say. "Wow. Inflation coming if this reversal holds!" says Mary Anne. As long as gold stays above the major trend line of $935 an ounce, it's in bull mode, they say.

Rising inflation bodes well for gold. The Adens think ballooning interest on U.S. government debt will bring a lower dollar, and gold tends to move opposite to the dollar. Gold's November high represented a 40% gain for the year, compared with 50% to 117% for many other metals. This relative mediocrity, the sisters say, is one reason they remain bullish on gold.

Gold remains the biggest holding in the Aden family portfolio, along with Costa Rican real estate. "We have euros and other stuff, lately more real estate than we should. Gold is the best option," says Mary Anne. Another sisterly tip: Consider retiring to Costa Rica. |BW|



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## If this magazine is overwhelming you with financial advice, read on.

We offer you this page of peacefulness to take a deep breath. Slip off your shoes. Stretch out your spine. There you go. Tune it all out. Now extend your hands comfortably toward your keyboard. Let your fingertips type the keys: [Z] [E] [N] [D] [O] [U] [G] [H].

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## LIFE MANAGEMENT



CHRISTOPH HITZ

TAX STRATEGY

# GOODBYE, W-2

By Amy Feldman

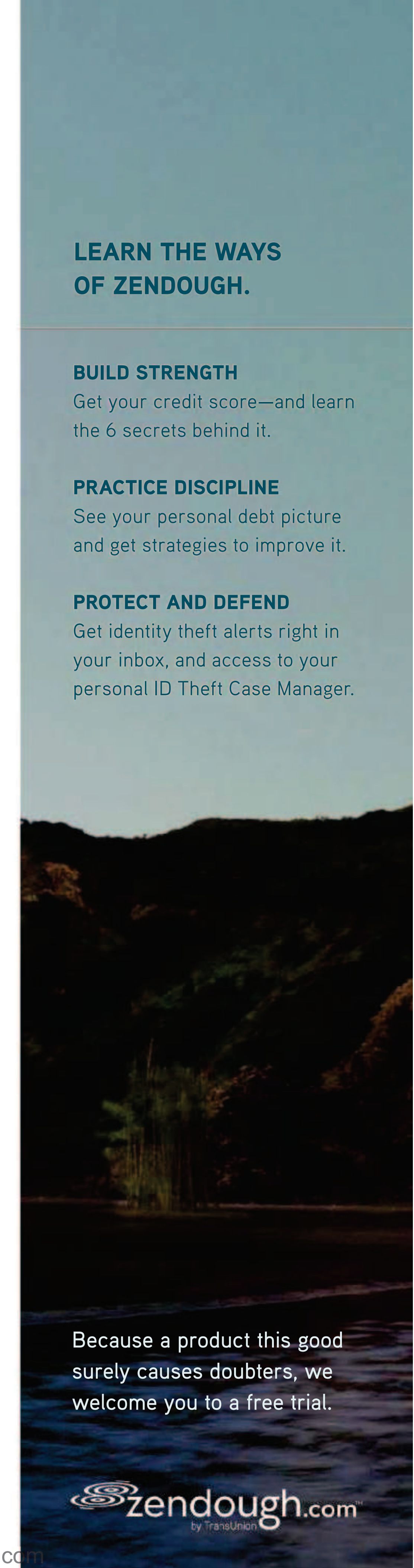
**It used to be that the vast majority of people worked in staff jobs.** But in a tough economy, the number of independent contractors, temps, part-timers, and freelancers expands (page 30). ¶ If you become a contingent worker, you'll need to rethink your taxes. For someone used to being on staff, "It's a mindset shift," says Eddie Gershman, a partner in Deloitte Tax's private client group. The common perception is that you'll pay more tax if you work for yourself, since you'll cover the employer portion of Social Security and Medicare taxes. While you will be on the hook for that self-employment tax, the tax advantages to working for yourself can soften the blow. Here's how to get the most out of deductions:

**BEING A BUSINESS.** As a self-employed person, you are now a business for tax purposes. That means you'll need to file Schedule C to calculate your business' profit (or loss) with your tax return. If you've got a profit on Schedule C, obviously, it's taxable; if you've got a loss, you may be able to use it to offset other income on this year's return—and, if you still have a loss, to offset income in previous or future years' tax returns. You'll also need to calculate your estimated taxes and file them quarterly.

**FUNDING RETIREMENT.** One of the easiest and most common ways to fund retirement when you work for yourself is with a SEP-IRA. Your contributions to the account reduce taxable income, similarly to when you had a corporate 401(k) plan. You can invest as much as 20% of net earnings from self-employment to the plan. Another, more complex option is to open an individual 401(k).

**TAKING DEDUCTIONS.** There are a lot of deductions and expenses that you qualify for as a business. Those self-employment taxes? Fifty percent are deductible. Your health insurance premiums? Deductible as well, under most circumstances. And, of course, you will get to write off business expenses for supplies, conferences, business lunches, and the like—so be diligent about compiling receipts. Capital expenses such as a new computer normally would have to be depreciated over time, but under a special small business tax break, Section 179, you can deduct up to $250,000 worth of equipment. |BW|






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# Recognizing the Stars of the Global Energy Industry

2009 platts GLOBAL ENERGY AWARDS

## Congratulations to the 2009 Platts Global Energy Awards Winners!

**CEO of the Year**
James Hackett
Anadarko Petroleum Corporation (USA)

**Commercial Technology of the Year**
Repsol (Spain) - *Kaleidoscope Project*

**Community Development Program of the Year**
PTT Public Limited Company (Thailand)

**Deal of the Year**
Enel SpA (Italy) - *Endesa Acquisition*

**Downstream Operations of the Year**
S-OIL Corporation (South Korea)

**Energy Company of the Year**
Anadarko Petroleum Corporation (USA)

**Energy Efficiency Program of the Year - Consumer**
Johnson & Johnson (USA)

**Energy Efficiency Program of the Year - Supplier**
Pacific Gas and Electric Company (USA)

**Energy Producer of the Year**
Chesapeake Energy Corporation (USA)

**Engineering Project of the Year**
Mirant Corporation (USA) - *Potomac River Generating Station Virtual Stack*

**ENR Energy Construction Project of the Year**
Shell Exploration & Production - *Perdido*

**Green Energy Initiative of the Year**
Naval Facilities Engineering Command (USA) - *Energy and Water Management Program for the Department of the Navy*

**Industry Leadership Award**
Chesapeake Energy Corporation (USA)

**Infrastructure Project of the Year**
Entergy Corporation (USA)
*New Orleans Underground Natural Gas Service Infrastructure*

**Lifetime Achievement Award**

Tom Casten
Recycled Energy Development

Lee Raymond
Exxon Mobil Corporation

**Marketing Campaign of the Year**
Peabody Energy (USA)
"Coal Can Do That" Campaign

**Power Company of the Year**
FPL Group (USA)

**Rising Star Award**
Enzen Global Solutions Private Limited (India)

**Sustainable Technology Innovation of the Year**
Energy Storage & Power (USA)/PSEG
*Energy Storage Technology*

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CONSULTING. TECHNOLOGY. OUTSOURCING

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Co-Sponsor
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# BUSINESS VIEWS

**BOOKS** By CHRIS FARRELL

# Where Does the Street Go Now?

**The U.S. financial industry constantly reinvents itself. After the crash, it must do so again**

The economy may be healing from the Great Recession, but much of the financial-services industry remains on its sickbed. Once-mighty firms either got bailed out by taxpayers, swallowed up by others, or simply vaporized. Many of the survivors are weighed down by multibillion-dollar loan portfo-




JACOB THOMAS



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lios gone bad. In Washington and on Main Street, financiers are viewed at best with suspicion, at worst with loathing—yet they continue to dole out billions of dollars in bonuses.

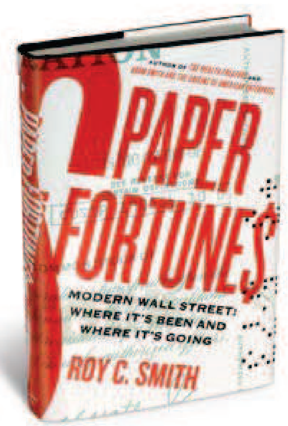
It's a bleak landscape. Yet Wall Street will reinvent itself, writes Roy C. Smith in *Paper Fortunes: Modern Wall Street: Where It's Been and Where It's Going*. "One lesson learned over the past forty-four years is that to endure, Wall Street has to continuously change." Unfortunately, his book doesn't give a fully satisfying answer to how Wall Street will reinvent itself.

Smith graduated from Harvard Business School in 1966 and took a job at Goldman Sachs. He estimates that only 5% of his class of 800 went to work on Wall Street, probably because the industry's reputation still hadn't recovered from the debacle of the 1930s and its pay wasn't competitive with other leading businesses. Smith started out at $9,500 a year, with no mention of a bonus. (Among his classmates who went to Wall Street was New York Mayor Michael Bloomberg—founder of Bloomberg LP, which owns *Bloomberg BusinessWeek*—to Salomon Brothers.)

**SMALL WORLD**

Back then the investment banking business was tiny, comprising some 20 partnerships with an average of 500 employees and an aggregate capital base of around $100 million. Morgan Stanley dominated the blue-chip securities business, yet in the mid-60s "many of the partners sat in one large Dickensian room behind matching mahogany rolltop desks so they could easily communicate with one another when they needed to."

Smith made partner at Goldman, retiring from the firm in 1988 to take up his current teaching position at New York University's Stern School of Business. He was a player, and a close observer as the U.S. financial industry evolved from a fragmented community clustered in lower Manhattan into a global behemoth dominated by large, publicly traded firms that earn more than half their income outside the U.S., with foreign nationals making up over half their workforce.




***Paper Fortunes: Modern Wall Street: Where It's Been and Where It's Going*** **by Roy C. Smith; St. Martin's Press; $35**

It's a breathtaking industry bildungsroman, full of flamboyant personalities, shrewd risk-takers, catastrophic blunders, and failed ideas—such as the financial supermarket, best illustrated by Sandy Weill's creation, Citigroup. At heart, Smith is a friendly critic. He describes the industry's many mistakes, recognizes its dependence on government bailouts, and highlights grievous flaws in its bonus system and other practices. But he also believes it's the entrepreneurial dynamo of America, a business that offers opportunity to those with little more than brains and pluck. Walter Bagehot, the 19th century editor of *The Economist*, is a big influence on his thinking. Writes Smith: "The real power of the market, [Bagehot] went on to suggest, is its ability to offer the benefits of leverage to those working their way up in the system, whose goal is to displace the men at the top."

It's a powerful theme, but *Paper Fortunes* doesn't quite make the case. The rise of Wall Street helped knit together an evolving global economy, but it's not clear how much all the trillions of dollars in financing meant to everyday entrepreneurship. Smith also doesn't grapple enough with what he thinks should come next. It seems clear that too many smart people went to Wall Street in recent decades and did much more to enrich themselves than society. So what's to prevent that from continuing?

Nonetheless, *Paper Fortunes* is a worthy book. Anyone interested in financial regulatory reform would be well advised to consult it. And Smith's finely detailed account of the industry's postwar history, while sometimes a bit dry, offers invaluable perspective. (After perusing it, for example, one feels that the current enthusiasm for bringing back the Glass-Steagall Act—the 1933 legislation that sundered commercial and investment banking—amounts to little more than an exercise in nostalgia.) Smith also touches on a point too often neglected these days: What changes will the market impose on the industry? The financial supermarket has fallen from favor. So have ultrasteep leverage ratios at finance firms. He thinks the combination of regulatory and shareholder pressure may even lead the industry to shrink for the first time in modern history.

Whatever form Wall Street takes, it will continue to lure more than its share of high rollers. That's just as it should be, Smith argues—even allowing for the dark side of the culture of greed and risk. But the reader may finish the book with a different feeling: that Wall Street needs to be contained. |BW|

**Business Exchange**

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**Wall Street's Appeal Dims**



B-school grads aren't flocking to Wall Street the way they once did. In 2008 a record 41% of Harvard's MBA grads landed jobs in investment banking, private equity, and hedge funds. This year the number was down to 28%. The all-time low was 1937, when only 1% of the class—three grads—took jobs in the securities industry.

To view the statistics, go to **http://bx.businessweek.com/harvard-business-school/reference/**



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# TECH & YOU

By RICH JAROSLOVSKY

# In GPS, Google Is Still a Little Lost

## Its navigation software usually gets you to your destination—unless it thinks you're on the wrong side of the Atlantic

Where in the world am I?

I thought I knew. From all outward appearances, I was at Pennsylvania Station in New York. But according to Google's mapping and navigation software running on my Motorola Droid phone, I was on Cheapside, a street in London. The app helpfully located nearby Underground stations for me.

When Motorola, Verizon, and Google launched the Droid in November, investors drove down shares of TomTom and Garmin, makers of dedicated navigation systems. The reason: The mapping application built into Google's Android smartphone operating system offered spoken, turn-by-turn directions—for free. Now that Google has taken the wraps off its Nexus One phone, it's clear navigation will only grow in strategic importance.

I plan to look at how the app works on the new Google handset soon. In the meantime I've been using the program on the Droid in the New York-New Jersey metropolitan area for the last couple of weeks. And I've encountered enough quirks—hello, London!—to conclude its not quite time to give up a standalone device.

In your car, the best way to use the Droid for navigation is with the optional $29.99 mounting bracket that attaches to the windshield or dashboard. The phone senses when it's in the holder and automatically displays a special interface that includes large buttons for maps and navigation. On a few occasions, though, my phone would slip back to its usual display setting, requiring me or my passenger to find and relaunch the program.




PETER ARKLE

Google's app provides multiple ways to input your destination, including by touchscreen, the Droid's physical keyboard, and built-in voice search. I found the interface a bit fussy, requiring a number of pokes and prods. (Drivers shouldn't poke this, or any other screen, when the car is in motion.)

I also had an issue with the app's display. For a smartphone, the Droid's screen is a pleasure—very bright, with a higher resolution than that of an Apple iPhone. But its 3.7-inch size, combined with the Google app's mapping layout, makes it much harder to see than the 4.3-inch display on the Garmin nüvi 855 system I used for comparison.

Once I was under way, driving instructions were delivered in a clear voice that sounds a little like VIKI, the malevolent computer in the movie *I, Robot*. The system gave me plenty of advance notice of coming turns, including street names, and usually picked good routes. When I deliberately missed some turns, the Droid took longer than the nüvi to recalculate. So I often failed to take what would have been a logical alternative route. Harder to forgive were the app's occasional bouts of confusion, including the London episode.

Motorola refers queries about such hiccups to Google, which responds that they are hardware issues. Whoever is to blame, it's disconcerting to be directed the wrong way down a one-way street, something that has happened perhaps twice in five years with the built-in navigation system in my car—and happened within a week of using the Google app.

On the other hand, when I arrived at my destination, not only did the phone announce it, but the view switched from map to a Google street-view photograph. Very nice if you are prowling unfamiliar turf.

Google labels its nav app "Beta," a testing designation the company often maintains longer than its competitors do. I guess that's supposed to excuse the bugs in an otherwise fine app with a price nobody can beat.

Oh, and to get to Penn Station from Cheapside, head toward the Thames, take a right, and...keep going. |BW|

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E-mail the author at rjaroslovsky@bloomberg.net



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# FEEDBACK

LENDING

## COZY TIES —OR JUST BUSINESS?

Your story on Sea Island Co.'s financial challenges ("Paradise Lost," In Depth, Jan. 11) inaccurately suggests that personal relationships influenced important lending decisions. The facts behind this story paint a far different picture.

Our banking relationship began before a cross-board relationship existed. Moreover, neither executive had individual decision-making authority over approval of Sea Island loans.

The story also omits the indisputable fact that two other major, independent banks participated in subsequent Sea Island credit decisions, laying bare the notion that a strong friendship trumped prudent risk management. Two separate institutions without cross-board relationships, after conducting their own analyses about the resort's ability to repay, provided financing to Sea Island.

While we're not privy to the criteria that drove the lending decisions at these other banks, we're certain that Synovus followed the same multilayer approval process and rigorous review that accompanies any large loan we consider, including evaluations by independent appraisers, auditors, and legal counsel, as well as customary regulatory oversight. In the case of insider lending, this review process is even more stringent, in accordance with the Federal Reserve's Regulation O, which provides enhanced oversight for loans to bank directors and officers.

**Greg Hudson**
**External Communications Manager**
**Synovus Financial Corp.**
COLUMBUS, GA.




EDUCATION

## IN DEFENSE OF G.I. COLLEGES

In "G.I. Bill of Goods" (In Depth, Jan. 11), Daniel Golden chose to highlight the experience of a single military student enrolled in Bridgepoint Education's Ashford University and to call into question the institution's recruitment practices.

For Ashford University, the true merit of our educational offering resides with our students. In recent university surveys, more than 97% of Ashford University's military students who responded would recommend Ashford to others seeking a college degree. In addition, Ashford University has been named by *G.I. Jobs* magazine and *Military Advanced Education* magazine as one of the nation's top military-friendly schools.

Bridgepoint Education and Ashford University take immense pride in the educational opportunity we provide to the military community. Online higher education for the military, as well as for all online students, is in demand because it provides a high level of access to high-quality postsecondary education for those who may not have the opportunity through traditional means.

**Andrew Clark**
**Chief Executive Officer**
**Bridgepoint Education**
SAN DIEGO

REGULATION

## CAR DEALERS HAVE ENOUGH OVERSIGHT

With regard to "Car Dealers Could Get a Pass" (New Business, Dec. 28-Jan. 4): Dealer-assisted financing of vehicle sales is already regulated by the Federal Reserve Board, the Federal Trade Commission, and state attorneys general. Auto financing will continue to be regulated by these agencies. Auto financing had nothing to do with the financial crisis, and the legislation pending in Congress should not penalize dealers with overregulation that would add costs to consumers. Many in Congress believe that reregulation should focus on actual problems and not be used as a means to expand federal oversight power unnecessarily. This is why the House of Representatives exempted auto dealers from the jurisdiction of the proposed new consumer protection agency.

**John McEleney**
**McEleney Autocenter**
CLINTON, IOWA

*McEleney is chairman of the National Automobile Dealers Assn.*

THE ECONOMY

## FORGET THE EXPERTS, ASK THE AVERAGE JOES

Regarding "Sunny, With a Chance of Relapse" (Investment Outlook, Dec. 28-Jan. 4): What if the experts and gurus got out from behind their screens and began to listen to the people on the front line? No one is wiser than all of us, and the man and woman in the street—who weren't the cause of the meltdown—have a much better handle on what is going on and what will work for them than the so-called experts. Can we please have reports from across the heartland rather than from the homes of the "talking heads"? Let's hear how real businesspeople are planning to continue and expand in the year ahead.

**Screen name: Richard Bosworth**

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## OUTSIDE SHOT

By BEN KUNZ

# Five Ways the 'iPad' May Change the World

### Apple's forthcoming wireless tablet may rewrite the future for print media, commuters, even your 6-year-old

Business writers, like romance novelists, love hyperbole. The paradigm will shift. The good will be great. The earth will move. But occasionally a new technology comes along that really does help society. Apple's tablet may just be such a device.

Though the company hasn't confirmed anything, analysts expect Apple to unveil the device in late January and start selling it this spring. The tablet will likely look like an oversized iPod touch, with the ability to run Apple's 100,000 apps and a whole lot more. Laura DiDio, an analyst at Information Technology Intelligence, predicts it will have a 10- to 12-inch high-resolution screen, wireless technology for Web access, and a video camera. Rivals like Dell are preparing tablets, too, but Apple's is the one to watch. No one beats Steve Jobs at making radical new hardware designs undeniably cool.

So yes, the "Jesus Tablet" will appear. And yes, you'll buy one for an exorbitant price of, say, $800 as penance for being an early adopter. Within two years the price will fall to $199 until everyone, including your 6-year-old, has a gleaming, do-anything, interactive pane of glass jammed into his backpack. As that happens, the iPad will change the world in at least five ways.

• Magazine and newspaper publishing will recover as consumers rediscover paid subscriptions. Sorry, Chris Anderson, but not everything will be free. It's no mistake that Time Inc.'s *Sports Illustrated* invested in a sexy tablet magazine demo that's also due to hit the market later this year.

Publishers realize they need to lure back the paid subscribers they lost to the Web, and they'll do anything to grab you with the Apple gizmo. Expect to see them launch visually stunning versions of their publications with dynamic typography, video insets, social media overlays—whatever it takes to persuade you to open your wallet.

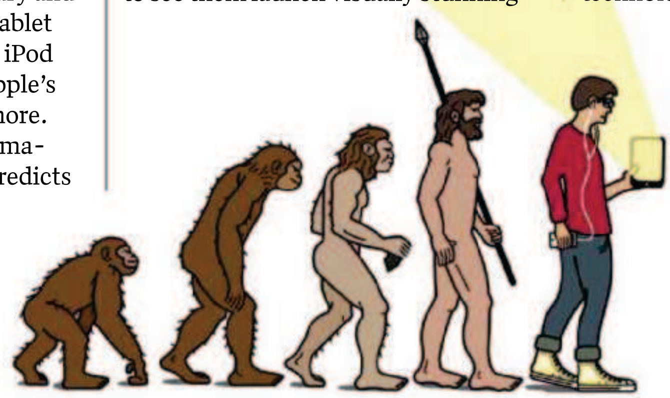
• Television and radio ratings will continue to fall. Unlike print, TV and radio won't fit easily into the tablet format. U.S. consumers still watch five hours and nine minutes of live television a day, but ratings slide when commercials air. Although Apple will try to push TV shows and movies through the tablet, few people will opt to watch longer videos that way. Instead, the tablet is likely to be an interactive distraction when TV ads come on your set.

• Augmented reality will go mainstream. If you missed this trend, it's simple: Augmented reality puts computer graphics on top of live video feeds, similar to the yellow first-down line you see on the field in NFL games. IPhone users can now download applications that overlay a video feed from their iPhone camera—providing floating arrows on the screen showing you, say, the distance to the nearest New York City subway station. With a larger tablet, such overlays will become more compelling. Expect app makers to figure out how to provide consumers with product reviews that float over items at the mall or give construction workers 3D instructions at a job site.

• Two-way video on tablets will push communication costs even lower. Yes, technically you can do portable video today—if you're willing to walk around town with a laptop flipped open near a Wi-Fi zone. But by and large, current technology can't accommodate simple two-way video on the go. Combine a tablet's Webcam with Internet telephony and suddenly video calls are as easy as holding up a mirror.

• Telecommuting may finally take off. If you hate your commute and care about the environment, why sit in traffic for two hours each day? Because society has decreed face time is better than phone time. But when Apple tablets make portable video more accessible, plane tickets and commuter coffee mugs may become things of the past.

I could be wrong. It may be too much to hope that Apple can save print journalism, augment reality, and cut your commute. But heck, Apple, even if you can't solve the world's problems, I'll probably buy your tablet anyway. BW



JENNIFER DANIEL

*Ben Kunz is director of strategic planning at Mediassociates, a media planning and Internet strategy firm.*



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